[redacted]

Inflation stirs
Something wicked this way comes?
The global outlook, Page 6

Jammed in Bangkok
Tracks through the traffic
Business travel, Page 14

David Radler
The eminence grise at Conrad Black's side
People, Page 13

How mature is Mexico?
Take the long view on political risks
Emerging markets, Page 23

FINANCIAL TIMES

Europe's Business Newspaper MONDAY MARCH 7 1994

VW launches radical plan to cut car production costs

German carmaker Volkswagen plans a drastic restructuring of car development and engineering operations to cut costs and simplify its global manufacturing activities.

VW, which is losing money heavily, is to reduce the number of basic chassis platforms which are used to produce its range of cars from 16 to just four. The strategy will have a big impact on its operations in Germany, Spain, the Czech Republic, Brazil, Mexico, China and South Africa. **Page 18; Volkswagen builds a *platform for growth*, Page 21**

Black Sea fleet deal collapses: The commander of Ukraine's navy has repudiated the accord reached between Ukraine and Russia to transfer the Black Sea Fleet from joint Russian-Ukrainian jurisdiction to exclusively Russian control. **Page 18**

Digital to shed 6,000 jobs in Europe: Troubled US-based computer manufacturer Digital Equipment is to cut up to 6,000 jobs in Europe over the next 12 months. **Page 19**

Actress and politician Melina Mercouri dies

Greek Culture Minister and film actress Melina Mercouri (left) died from complications after an operation for lung cancer, She was 68. Mercouri, who gained international acclaim with her 1960 film *Never on Sunday*, had leading roles in some 70 films and plays. A socialist, she served as culture minister from 1981 to 1989 and returned to the post in October. Her most widely publicised campaign was for the return of the Parthenon Marbles from the British Museum. **Obitnary, Page 3**

UN to restore power to Sarajevo: United Nations officials intend to restore electricity and water supplies to the Bosnian capital of Sarajevo, but they need more troops to protect power plants and open roads into the city, UN special envoy Yasushi Akashi said. **Page 3**

Peruvian company plans Eurobond issue: Rodriguez Group, which specialises in consumer goods and pharmaceuticals, plans to become the first Peruvian company for more than 10 years to make a Eurobond issue. **Page 19**

Healthcare reforms hit drugs sales: Drugs sales in Europe fell sharply in dollar terms last year after widescale healthcare reforms. Sales in the seven largest markets, which include Belgium and the Netherlands, fell from \$51.6bn in 1992 to \$45.97bn last year. **Page 18**

Freight companies dismiss tunnel: Many British transport companies are unlikely to make much use of the Channel tunnel for freight shipments, according to a survey. **Page 7**

Sime Darby, the Malaysian-based conglomerate, reported a 12 per cent rise in interim pre-tax profits to M\$420m (US\$150m). **Page 21**

BAe in talks over Royal Ordnance: British Aerospace is in exploratory talks with Giat, which could lead to collaboration between the French state-owned arms manufacturer and BAe munitions subsidiary Royal Ordnance. **Page 19**

Bronfman shares climb: Share prices of companies controlled by Toronto's Bronfman family jumped after reports that Anglo American of South Africa was negotiating to acquire a large stake in the Canadian resources, real estate and financial services empire. **Page 21**

European Monetary System: Despite interest rate cuts in Belgium, Spain and Germany, the order of currencies in the EMS grid remains unchanged at the start of the week. The Spanish peseta, the weakest currency in the grid, has lost ground against all the others. The Irish punt, the strongest currency, has gained further against the peseta. **Lex, Page 18; Currencies, Page 31**

EMS: Grid March 4, 1994

The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Jewish settlers face evacuation: Militant Jewish settlers in the West Bank town of Hebron vowed a campaign of civil disobedience after the Israeli government said it might evacuate them. **Page 4**

African crime task force planned: Law enforcement officers from nine African countries meet in Nairobi this week to create a regional task force to fight international crime syndicates dealing in ivory, rhino horn, diamonds, arms and drugs. **Page 4**

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$16	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
France	FFr9.00	Kuwait	Fils.625	Poland	Z132,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L13000
						UAE	Dh12.00

Pressure mounts on president over Whitewater land deals as law chief quits

Clinton aides face cover-up probe

By Jurek Martin in Washington

President Bill Clinton's Whitewater problems hit dangerously close to home yesterday as the focus shifted on to the role of his wife and whether the White House has engaged in a classic "cover-up".

The complex Arkansas land and financial dealings in the 1980s claimed their first definitive victim over the weekend with the resignation, from next month, of Mr Bernard Nussbaum, the president's widely criticised legal counsel.

His resignation came just a day after the special counsel probing the Whitewater affair, Mr Robert Fiske, issued subpoenas to 10 White House and Treasury officials, including Mr Nussbaum and Mr Roger Altman, the deputy Treasury Secretary.

Mr Fiske is seeking details of meetings between the officials to discuss the status of regulatory investigations into the failed Madison savings and loan institution at the heart of the Whitewater affair. Congressional Republicans have charged that the meetings were improper.

Yesterday, vice president Al Gore put up a vigorous televised defence of the president and First Lady. He conceded that "mistakes" had been made by White House officials, but said the president had created "new fire walls" between the White House and other government departments.

He promised the "highest ethical standards" in the future, insisting that "no credible allegations" of impropriety had been lodged against the Clintons and that "no one can now doubt the independence of Mr Fiske."

White House under Whitewater pressure: Clinton; his legal counsel Bernard Nussbaum, who resigned; vice-president Gore and Hilary Clinton

Mr Gore also dismissed as "a cartoon image" reports in the US press yesterday that the White House was in a state of gloom and despair over the latest developments, with one unnamed senior official quoted as saying that this was "a perilous time" for this presidency.

Mr Gore accused the Republican party of partisan exploitation of the issue.

A flavour of the Republican attack was immediately provided in another TV interview by Senator Phil Gramm, the Republican from Texas, who came close to suggesting Mr Clinton could be forced from office – he denied he meant impeachment – if he did not "begin by levelling with the American public".

The likelihood of a Congressional investigation into Whitewater, supplementary to Mr Fiske's, is also increasing, with some Democrats now joining the Republican clamour for hearings.

Yesterday even Congressman Dan Rostenkowski, who is generally supportive of Mr Clinton, refused to exclude looking into the role of the Treasury, over which his ways and means committee has jurisdiction.

The implication of Mrs Clinton in the affair has less to do with her carving out a new, policy role in the White House than with her past associations as a partner in the influential Rose Law Firm in Little Rock, through which much Arkansas state business passed.

Two other former partners are much in the news. The circumstances of the suicide last summer of Mr Vincent Foster, then Mr Nussbaum's deputy, continue to attract interest. Mr Webster Hubbell, now associate attorney general, is reportedly being questioned by Rose itself over past billing practices.

The quality of the White House staff, many of them old friends of the Clintons, is also under fire. Mr Nussbaum, a former Wall Street lawyer, had seemed error-prone, especially in vetting candidates for senior administration positions and for allegedly interfering with judicial processes over Whitewater and the Foster suicide.

But a more general criticism is that there is nobody close to the Clintons with the political authority and Washington experience to offer independent advice.

Corruption drive, Page 5

German pay deal averts threat of strikes

By Quentin Peel in Hanover

Hopes for a round of low wage deals for German industry and the public sector rose sharply at the weekend, after a last-minute pay settlement headed off the threat of an engineering industry strike from today.

Agreement on an effective pay freeze for the 3.6m engineering workers was reached on Saturday morning, after more than 13 hours of negotiations through the night between trade union and employers' leaders.

It was welcomed yesterday as a clear signal to 3.5m public sector workers – whose next round of pay negotiations opens on Wednesday – to accept a low pay deal. Their employers in the federal, state and local governments want an outright pay freeze. Banking workers, printers and construction workers are also in the pay queue.

The engineering workers will get a 2 per cent pay rise from June 1 – five months late – but see a 10 per cent reduction in other fringe benefits for the rest of the year. The wage rise amounts to an increase of 1.16 per cent for the full year, but the net effect, according to the employers, is a zero increase in wage bills.

A promised rise in Christmas pay has been postponed by one year, and fringe benefits will be calculated at the current rate until 1996.

The deal also includes a path-breaking agreement providing for shorter working hours in companies facing a temporary slump in demand, as an alternative to job cuts. Individual plants can negotiate their own shorter working week within the national pay agreement.

Mr Klaus Zwickel, the leader of IG Metall, the engineering workers' union, said: "We decided to trade job security against money," he said. "In return for these successes [on job security] we have been skinned on the wage increase."

The deal on working hours

Continued on Page 18

Germany's big guns pull back, Page 2
Editorial Comment, Page 17

Fear of re-emergent Russian expansionism prompts move towards 'wider Europe'

EU seeks faster integration of east bloc

By Lionel Barber in Brussels

The European Union is fundamentally reassessing policy towards the former communist countries of central and eastern Europe, with Germany pressing for their faster integration with the west and future EU membership.

The reassessment, strongly supported by the US, is being driven by fears about Russian nationalism and the risk that Moscow might seek to reclaim its sphere of influence in eastern Europe, according to senior diplomats in Brussels.

Mr Jacques Delors, president of the European Commission, is also moving towards the concept of a "wider Europe," modifying his emphasis on deepening integration among the 12. "The whole policy toward central Europe badly needs a rethink," a senior Delors aide said.

The results of the policy review will emerge over the next few months, particularly when Germany takes over the rotating EU presidency from Greece in July. But the broad outlines are already apparent.

European foreign ministers in Brussels will today consider an Anglo-Italian plan allowing formal co-operation at international conferences and "joint foreign policy actions" between the EU and the six "associate" EU member states – Poland, the Czech Republic, Hungary, Slovakia, Bulgaria and Romania.

The Anglo-Italian plan is likely to be followed by selective offers of associate membership of the West European Union, the EU's emerging defence arm.

Brussels is watching closely to see how Russia will respond in the light of its rejection of Nato membership for Poland and other former communist satellites.

The European Commission is also conducting a wide-ranging review of trade, aid, competition policy and the operation of the Common Agricultural Policy toward eastern Europe. Mr Delors will chair a Commission brainstorming session on March 23, with several new ideas under review. They include:

- An end to export subsidies for EU farmers sending produce into eastern Europe. In a little-noticed action, the Commission agreed temporarily to stop export restitutions for apples entering the Czech Republic this year. But officials say more needs to be done to prevent highly competitive western farmers wiping out east European agriculture as it restructures.
- An overhaul of the Phare aid programme, which has pumped around Ecu1bn (\$1.1bn) of technical aid into eastern Europe over the past four years. Officials say aid needs to be channelled into infrastructure spending, more on the lines of the EU's own "structural funds" budget.
- A drive to persuade the former communist countries to copy EU competition law and harmonise regulations. A new "competition area" could defuse disputes over state aid in eastern Europe, reducing the risk of the EU invoking anti-dumping actions, according to officials.

Although welcome, these moves may not satisfy the east Europeans, particularly Poland and Hungary. Hungary last week signalled that it intends to apply for formal membership next month with the goal of opening negotiations in 1996-97.

Germany is expected to make integration with central and eastern Europe a priority in its presidency. In response, France is being forced to reassess its own policy toward enlargement, just as it did two years ago when Germany and the UK pressed successfully to open membership negotiations with Finland, Sweden, Austria and Norway.

France is understood to be considering submitting detailed criteria for membership for the

Continued on Page 18

Mandela seeks later deadline for electoral registration

By Patti Waldmeir in Johannesburg

Mr Nelson Mandela, African National Congress leader, said the deadline for parties to register for South Africa's first all-race election should be extended, after white rightwing groups reversed their earlier decision to register for the poll.

Hard-line officials of the white, rightwing Afrikaner People's Front (AVF), meeting on Saturday in Pretoria, censured General Constand Viljoen, their moderate leader, for registering a rightwing party for the election. He registered an unknown party called the Freedom Front six minutes before the midnight deadline on Friday. He was heavily outvoted in a meeting on Saturday of the AVF executive, which declared a poll boycott.

Moderate members of the white Conservative party at the meeting argued for election participation, but it was not clear whether they might still break away and form an alternative rightwing grouping. They must lodge a candidate list with the Independent Electoral Commission by Wednesday, or the Freedom Front's registration will lapse.

Mr Mandela told an election rally in the northern Transvaal town of Pietersburg there would be no peace if some players remained outside the election process. "I am prepared to talk to those who have refused to register ... We must develop absolute patience and the ability to understand the fears of others."

He praised Gen Viljoen for his efforts to register a rightwing party, saying: "I am convinced he is genuine, with strength of character and integrity." The general will scarcely welcome this praise, given charges from his own allies that he is too close to the ANC.

Merely extending the registration deadline, as Mr Mandela suggested, is unlikely to woo the white right to join the process. They want a white referendum to test support for their demand for an Afrikaner homeland.

The AVF's decision leaves the Freedom Alliance, grouping the AVF, the Zulu-based Inkatha Freedom party and the Bophuthatswana black homeland, in disarray. Bophuthatswana's cabinet will decide today whether to register. Inkatha did so on Friday but it is too soon to say whether the alliance will split.

- At least 11 blacks were killed on Saturday in Bhambayi settlement outside Durban in clashes between Inkatha and the ANC.

CONTENTS

 No 32,310 Week No 10 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Germany's big guns pull back

Quentin Peel on compromises that won a wage deal and averted a strike in industry

The first hint of a breakthrough in the hard-fought pay round for Germany's 3.6m engineering workers came in the early hours of Saturday morning, in the unlikely surroundings of Hanover's city press club.

Five leaders of IG Metall, the mighty engineering workers' union, and six from Gesamtmetall, the employers' federation, had been sitting around the table since 6pm, looking for ways of heading off the first strike in west German industry since 1984.

At the heart of the deal was a proposed trade-off between guarantees of job security, and more flexible working hours. At 1am the negotiators broke to report back for the second time to their national executive committees, waiting patiently in nearby conference rooms.

"The whole package is back on the table," one official whispered. "It looks as if they are getting somewhere."

It took almost seven hours more, but at breakfast time the two sides were able to announce, with visible relief, that a deal was done.

"We have been able to prove that national collective bargaining has a future," said Mr Hans-Joachim Gottschol, the tough-talking employers' leader, whose determination to get real cost cuts for his members took the pay round to the brink of collapse. "We, as well as IG Metall, want to carry on working with such national agreements."

On the face of it, both sides had to give up a lot of their demands.

The employers wanted a 10 per cent cost cut. They served notice of termination of the current agreement on holiday pay and conditions. They wanted individual enterprises to have more freedom to do plant-level deals on longer working hours.

The union wanted guarantees of job security, and preservation of real incomes. The pay claim was for 5.5-6 per cent, and it wanted a new deal to cut working hours as an alternative to redundancies in recession-hit enterprises.

Neither side got what it wanted.

The pay deal this year amounts to an effective pay freeze: the 2 per cent increase from June 1 – five months late – amounts to about 1.16 per cent over the full year. But other fringe benefits have been reduced by 10 per cent for the year, and then tied to the pre-June pay scales for 1995 and 1996. A 10 percentage point increase in Christmas pay has been postponed. Holiday pay has been reinstated, but at the old rates.

Mr Gottschol says that means no overall increase in company wage bills. With increased productivity, that does mean cost cuts – although scarcely of 10 per cent.

The union won a deal on shorter working hours for crisis-hit plants. But only one option provides for guarantees of no redundancy.

According to that model, an entire company can opt for shorter working hours – say 30 hours a week instead of the current 36 hours – as an alternative to job cuts, if it is facing a slump in demand. The workers will lose a full six hours' pay, but they will not lose their jobs.

The alternative model agreed is for companies where only specific sections are operating under capacity. Then shorter hours can be introduced where needed, but the employees will not suffer a corresponding pay cut: they will get partial compensation for loss of earnings, but there will be no formal guarantee of no job cuts.

Where German employers are facing a temporary slump in demand because of the recession, the models may prove attractive as an alternative to expensive redundancy packages. But they do not answer the problems of those companies losing export markets because of their high unit wage costs.

Mr Walter Riester, the deputy leader of IG Metall who negotiated the package, said the deal amounted to a new option for flexibility in the national wage contract for recession-hit companies.

It does not amount to the sort of flexibility many employers were seeking, to shift the real focus of wage deals from the national to the plant level. Indeed, it amounts in effect to a reprieve for national collective bargaining at a moment when the system was under enormous pressure.

Mr Gottschol and Mr Klaus Zwickel, his IG Metall counterpart, were obviously content. But the real test of the system will depend on whether the latest package answers the real structural problems of the industry, and not just the need for a temporary pay freeze.

Italian right shows strains

By John Simkins in Milan

Strains between right-wing allies contesting this month's Italian elections burst into the open at the weekend with an attack on the Forza Italia party of Mr Silvio Berlusconi by Mr Umberto Bossi, leader of the populist Northern League.

Opinion polls suggest about 40 per cent of decided voters will back the right wing in the March 27 poll, in opposition to a broad-left alliance led by the former communist Party of the Democratic Left. However, Mr Bossi is concerned that the emergence of Forza Italia is taking away votes from the Northern League, which won nearly 9 per cent of the national vote in 1992 and had 79 MPs in both houses.

At a rally in Florence Mr Bossi said that Forza Italia had been created by the former Christian Democrats (now the Popular party) "to take votes from the League and create a moderate grouping in order to recycle the old political class". In a play of words he also referred to "Sforza Italia" (Italian strain) and "Falsa Italia" (False Italy).

Italian newspapers reported yesterday that Mr Bossi had also written to League officials directing them not "to support or put forward Forza Italia candidates in any way at all".

Mr Bossi was even more forthright in Florence about Mr Gianfranco Fini's National Alliance, formerly the neo-fascist MSI, with which Forza Italia has a technical alliance on division of seats. He said Mr Fini would not win votes in the north, which has "been traditionally anti-fascist".

Mr Berlusconi responded to Mr Bossi's remarks with an appeal for unity on the Italian right. "Our partners' candidates are of the same flesh and blood as us. They must be treated like our candidates," he told a rally in Florence.

Mr Berlusconi called on the members of the so-called Freedom Alliance to "overcome selfishness and small-mindedness".

EUROPEAN NEWS DIGEST

British Steel to seek pledge on industry support

British Steel has proposed that European industry ministers make a solemn pledge at their next meeting in April not to sanction any further subsidies in the steel industry as a way of resolving the sector's crisis, writes Hugo Dixon.

Mr Brian Moffat, British Steel's chairman, said he would then be prepared to take part in an industry-wide restructuring scheme being brokered by the European Commission. British Steel and other private-sector steel groups have been refusing to take part in the scheme following the decision by industry ministers to approve Ecu7bn (£5.3bn) in aid to several state-owned steel groups last December.

The scheme envisages non-aided companies cutting up to 25m tonnes of capacity to bring demand and supply for steel into balance. Mr Moffat vowed to continue his boycott of the scheme if there was no pledge to curb future subsidies. He said that without such assurance, he would also not attend a meeting between the Commission and European steel chiefs scheduled for March 23.

British Steel accepts that it will be impossible to unravel December's deal on subsidies. But it is trying to build up support for a total ban on any more being granted.

Poland passes budget

Poland's 1994 budget was passed at the weekend by the Sejm, parliament's more important chamber, as the Solidarity trade union prepared for a campaign of protest strikes due to start today, writes Christopher Bobinski from Warsaw.

The budget, which is in tune with IMF guidelines, opens the way to new standby credits and a 20 per cent reduction of Poland's $33bn (£22.6bn) debt to western governments. It won the overwhelming support of the governing coalition parties despite initial demands from individual deputies that spending restrictions be eased.

Solidarity, which is planning to disrupt rail services and power and telecommunications links over the next few days, is demanding that controls on wages be eased and the scale of planned energy price rises reduced. The government led by Mr Waldemar Pawlak is now expected to nominate Mr Dariusz Rosati, an economist in his late 40s who is a specialist in foreign trade issues, as the new finance minister and deputy premier responsible for the economy.

Mr Rosati's views on the economy are similar to those of Mr Marek Borowski, his predecessor who drafted this year's stringent budget.

Fears over Italian oil blow-out

Italian environmentalists claimed at the weekend that the country's first onshore oil well blow-out had caused an ecological disaster and wiped out at least a year's rice production in the area, writes John Simkins.

Agip, the oil exploration company controlled by the state-owned Eni group, has commissioned the Battelle Institute of Geneva to analyse the damage caused by the spill last week at its Trecate-Villa Fortuna oilfield near Novara, about 40km west of Milan, and advise on cleaning up. Trecate provides half of Italy's annual crude oil production of 4m tonnes and 5 per cent of consumption in a country heavily dependent on imports. Agip made the well safe at the weekend.

Mr Roberto Gazzola, of the environmental group Legambiente, said: "We believe the damage is even more serious than it appears. It is possible the oil has permeated the earth's water-bearing stratum and seeped into the Ticino river."

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell and Alan C. Miller. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International).
Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 Copenhagen K. Telephone 33 13 44 41. Fax 33 93 53 35.

Rousselet plans libel writ against minister

By Alice Rawsthorn in Paris

Mr André Rousselet, the French businessman who last month resigned as chairman of the Canal-Plus television group, plans to sue Mr Alain Carignon, the communications minister, for libel.

Canal-Plus, one of Europe's most successful pay-TV companies, has been clouded by controversy since Mr Rousselet's resignation, with some analysts saying it has lost considerable independence. Mr Rousselet, one of the most influential figures in European media and a close friend of Mr François Mitterrand, the socialist French president, founded the company 10 years ago.

He resigned in protest at the formation of a concert party to take control of Canal-Plus by its largest shareholders, all of which were privatised by France's last right-wing government.

Mr Rousselet has since publicly accused Mr Edouard Balladur, the conservative prime minister, of orchestrating a campaign against him.

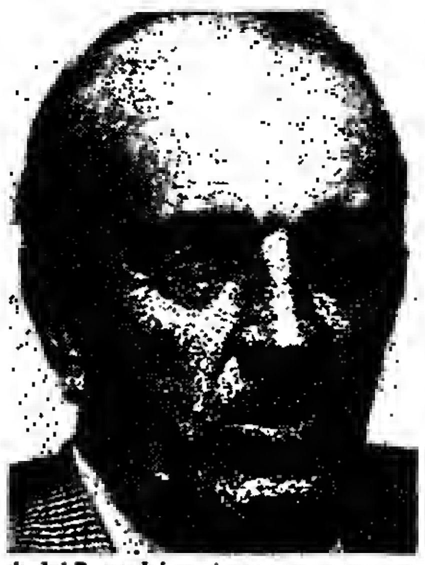
Mr Rousselet said at the weekend that he planned to pursue a civil libel suit against Mr Carignon over remarks about Mr Rousselet's role in broadcasting appointments in the early 1980s, when he was head of President Mitterrand's private office. He also plans to sue Mr Philippe Alexandre, a prominent French political commentator, over comments on Mr Rousselet's personal wealth. The libel suits should ensure that the row over Mr Rousselet's resignation stays in the limelight.

The concert party has raised important questions about the future relationship between the French government and industry at a time when the Balladur government is pursuing an ambitious privatisation programme.

Until recently most French companies in "sensitive" sectors such as broadcasting have been state controlled, and governments have openly intervened in management and personnel issues, notably in the appointment of the chairman.

But in theory the state should have no influence over the affairs of a private sector company such as Canal-Plus, which is publicly quoted with a large part of its equity owned by companies in related industries that act as *noyaux durs* or "hard core" investors.

The Balladur government is now introducing *noyaux durs* to the companies being sold in its privatisation drive. These hard core investors tend to be companies sympathetic to the aims of the Balladur administration.



André Rousselet: controversy

Mr Rousselet's conspiracy allegations have fuelled fears among international investors that future French governments could use the *noyaux durs* indirectly to influence the affairs of private-sector companies.

EU to boost Ukraine trade pact

By Gillian Tett in Brussels

The European Union is to offer Ukraine a more generous political and trade agreement in an effort to bolster the country's moderate political groups ahead of its elections later this month.

A meeting of European foreign ministers in Brussels today is expected to give the European Commission a mandate to conclude the deal, which is similar to the partnership agreement concluded with Russia earlier this year.

The deal promises greater political co-operation and contains a commitment to discuss the establishment of a free trade zone by 1998. However, it falls considerably short of the partnership deals offered to the Baltic states and eastern Europe, and, in contrast to the deal now agreed with Russia, gives no endorsement of Ukraine's economic reform.

Commission officials said the omission was intended to signal EU concerns about the limited nature of Ukraine's economic reforms, and put pressure on Ukraine's leadership to act more decisively.

But the omission has angered Ukrainian officials, who insist there is no reason to treat Ukraine differently from Russia. "It is not fair to label us a country that does not want to change. We consider we are an economy in reform," said Mr Volodymyr Vassylenko, Ukrainian ambassador to the EU.

He added that Ukraine was hoping that closer ties with the EU could help defuse tensions with Russia over regional issues such as Crimea. "We want the EU to recognise that Crimea is Ukrainian territory and send a clear signal to Russia to that effect," he said. But EU officials have so far responded with caution to suggestions that the EU could act as a mediator in the dispute over the Crimea.

However, coming after a year in which EU ministers have paid scant attention to Ukraine, the agreement highlights a new attempt, led largely by the German and French, to bolster EU links. This shift has been triggered by growing concerns about Ukraine's economic instability and nuclear arsenal, and by growing doubts about the reliability of Russia as a partner.

"The members states of the EU are more interested now in the Ukraine than they have been for a long time," said a diplomat in Brussels. "They want to do something for the Ukraine because it is starting to co-operate over nuclear weapons."

The EU is also considering opening talks with Moldova, Belarus and Kazakhstan with a view to offering similar agreements.

A Ukrainian delegation is due in Brussels later this week for a final round of talks on the agreement, which will also set up a framework for market access talks to cover areas such as steel, coal and agriculture.

Sarajevo protesters weep at a demonstration yesterday over the partition of the Bosnian capital Associated Press

UN appeal on Sarajevo services

By Judy Dempsey in Berlin

United Nations officials intend to restore electricity and water supplies to the Bosnian capital of Sarajevo, but they urgently require more troops to protect power plants and open roads into the city.

Mr Yasushi Akashi, the UN's special envoy to the former Yugoslavia, yesterday said it was essential to build on the ceasefire through restoring Sarajevo's essential services.

However, a UN official said the troops still had no mandate to demilitarise the city and did not yet control all entry and exit routes, which in most cases were controlled by Bosnian Serb patrols.

The Italian government has reacted cautiously to suggestions at the UN that Rome might send troops to reinforce peacekeepers in Bosnia, writes John Simkins from Milan. Mr Beniamino Andreatta, foreign minister, did not rule out an Italian contingent but said no request had yet been received from the UN. Italy's offer two years ago was turned down because of UN rules forbidding participation by countries bordering ex-Yugoslavia.

Mr Akashi has already said his forces require at least 4,000 troops for Sarajevo. Britain has indicated it would send more if supported by other countries.

Meanwhile in Vienna, Bosnian Croat and Bosnian Moslem officials, along with Croat officials, will today continue talks aimed at deciding how to implement the complex federal and confederal plan agreed in Washington last week.

Bosnian Croat forces yesterday started withdrawing heavy weapons from south-west Bosnia a day ahead of the deadline agreed as part of the plan.

The plan envisages the creation of a Bosnian Croat and Moslem federation in part of Bosnia, loosely linked to Croatia through a confederal structure.

A transitional committee, comprising representatives from Zagreb and the Croat and Moslem-held territories of Bosnia-Hercegovina will negotiate until March 15 and seek agreement on four issues:

- The constitution of the federation;
- The relationship between the confederation and the proposed federation;
- Military arrangements in the federation; and
- The creation of governmental/administrative structures for the confederation and the federation.

President Slobodan Milosevic of Serbia and Mr Radovan Karadzic, head of the Bosnian Serbs, have yet to decide whether to join the new federal structure for Bosnia.

Brussels battles to find fish formula

By David Gardner in Brussels

Spain and Norway yesterday dug deeper into their already entrenched positions on access to Norwegian cod, as the European Union struggled for a formula to permit Norway to settle EU membership terms.

Mr Javier Solana, Spain's foreign minister, warned on Spanish television that Madrid would veto Norway's entry unless Spain recovered its "historic" rights" to fish in Norwegian waters.

Mr Bjorn Tore Godal, Norway's foreign minister, said on arrival in Brussels for the final three days of membership negotiations with the EU that Spain's demands for an extra 14,000 tonnes of Norwegian cod were "out of the question."

He pointed out that as part of the negotiations leading to this year's European Economic Area (EEA) free trade zone Norway ceded to the EU about 51,000 tonnes of cod – including an extra 11,000 tonnes by 1997 for the poorest EU member states, some half of which is earmarked for Spain.

This last quota would lapse if Norway entered the Union next year and its "consolidation" as a permanent quota might provide the only possible area for compromise in the talks.

The whole EU enlargement exercise could, however, grind to a halt if Spain and the UK continue to insist that their voting weight inside the 12-member Union be kept unchanged in a Union of 16 members. The EU will try to resolve this issue at a foreign ministers' meeting tonight.

Fyodorov predicts action by Yeltsin

By Martin Wolf

Russian president Boris Yeltsin would use his extensive presidential powers to rescue the economy if the inflation rate accelerated out of control, Mr Boris Fyodorov, the former minister of finance, has predicted.

Suggesting that inflation would rise to 30 per cent a month by the autumn, rather than the 10 per cent targeted by the government, Mr Fyodorov indicated that the outcome would probably be a return to reformist government.

Mr Fyodorov, speaking in London on Friday, said he did not believe in a disaster scenario, since Mr Yeltsin would take a grip of things. The future for Russia was going to be one of muddling through, not one in which an extremist "clown" took power.

However, in a country of "geniuses and future presidents" it was difficult to obtain co-operation among reformers, he said. His own December 12 group could co-operate with Mr Yegor Gaidar on virtually all issues. He would also co-operate with Mr Grigory Yavlinsky, a presidential candidate, if possible. But there were a dozen people in Russia's Choice with whom he would find it difficult to work.

Nevertheless, the former finance minister was worried about the political confrontation looming between president and parliament.

Unrest might come to a head with demonstrations on May 1, which would have to be firmly handled by the authorities in Moscow.

Mercouri, fiery advocate of Greek heritage, dies

Ms Melina Mercouri, a former film star and fiery Socialist politician who twice served as Greece's culture minister, died yesterday, after a long battle with lung cancer, Reuter reports from New York.

Ms Mercouri gained international acclaim with her 1960 film Never on Sunday and held leading roles in some 70 films and plays before serving as culture minister in the Greek government from 1981 to 1989. She returned to the post last October.

As minister of culture, Ms Mercouri was a passionate advocate for Greece's heritage. Her most widely publicised campaign was for the return of the Parthenon Marbles, some of Greece's finest classical sculptures, taken in the 19th century from the temple on the Acropolis overlooking Athens and held by the British Museum.

She also led a failed campaign to promote Greece as host for the Olympic Games in 1996, the centenary of the modern games, which were revived in Athens in 1896.

"If I did not love Greece so much I would be lazy, egocentric and a coward," she said in an interview.

A tall, natural blonde with green eyes, Ms Mercouri was born to a prominent political family on October 18, 1925. She trained at the Athens Drama School and her film career took off in 1955 when she won the Best Actress Award at the Cannes Film Festival for her role in Stella. It was in Cannes that she met American film director Jules Dassin, whom she later married. He also directed her in Never on Sunday, which won her an Academy Award nomination for her role as a carefree prostitute.

"Mercouri has the sun-bleached good looks of Ingrid Bergman, the glamour of Lauren Bacall and the passion of Anna Magnani," wrote one New York critic.

However, Ms Mercouri's stinging denunciation of the junta that seized power and ruled Greece from 1967 to 1974 saw her films and songs banned in Greece and a warrant issued for her arrest. It was then that she allied herself with the Panhellenic Socialist Movement of her fellow exile, and later Socialist prime minister, Mr Andreas Papandreou.

She was named culture minister after Mr Papandreou swept to power in 1981. He kept her at the same post during 14 reshuffles and re-appointed her to the ministry when he returned to power in 1993.

Ms Mercouri, renowned for her blunt humour, once offered this view of her life: "I fell in love with the camera and I think the camera fell in love with me – but I still think my mouth is too big."

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for trading on 06.03.94 Pool purchase price £/MWh	Final Prices for trading on 06.02.94 Pool purchase price £/MWh	Pool selling price £/MWh
0030	10.89	17.13	17.13
0100	10.89	25.39	27.01
0130	12.96	36.50	38.12
0200	12.96	36.50	38.12
0230	10.89	20.95	22.57
0300	10.89	20.95	22.57
0330	10.89	20.95	22.57
0400	10.89	20.95	22.57
0430	10.62	19.10	20.72
0500	10.54	10.65	12.27
0530	10.54	10.65	12.27
0600	10.54	16.00	16.00
0630	10.54	10.64	10.64
0700	10.55	10.65	10.65
0730	10.53	10.65	10.65
0800	10.53	11.51	13.13
0830	10.53	11.51	13.13
0900	10.54	16.23	16.23
0930	10.54	16.84	18.46
1000	10.62	19.37	20.99
1030	10.55	19.35	20.97
1100	10.55	19.77	21.39
1130	10.55	21.75	23.37
1200	10.55	26.05	27.67
1230	10.55	26.05	27.67
1300	10.55	26.05	27.67
1330	10.55	26.05	27.67
1400	10.55	17.42	17.42
1430	10.56	17.15	17.15
1500	14.50	16.24	16.24
1530	10.60	16.23	16.23
1600	10.65	16.23	16.23
1630	10.62	17.15	17.15
1700	10.55	17.20	17.20
1730	10.55	21.52	23.14
1800	10.55	23.96	25.58
1830	10.55	55.95	57.56
1900	14.94	55.95	57.58
1930	14.94	55.95	57.85
2000	11.52	22.00	23.62
2030	10.55	20.71	22.33
2100	10.55	20.28	21.90
2130	10.55	20.28	21.90
2200	10.55	19.79	21.41
2230	10.55	17.15	17.15
2300	10.60	16.24	16.24
2330	10.54	16.24	16.24
2400	10.54	16.23	16.23

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity made the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.
©Energy Settlements and Information Services Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for trading on 07.03.94 Pool purchase price £/MWh	Final Prices for trading on 07.02.94 Pool purchase price £/MWh	Pool selling price £/MWh
0030	14.64	17.20	17.20
0100	10.55	25.92	28.43
0130	10.56	25.92	28.43
0200	10.55	25.92	28.43
0230	10.55	20.28	22.79
0300	10.55	20.28	22.79
0330	10.56	20.28	22.70
0400	10.55	17.20	17.20
0430	14.50	17.13	17.13
0500	10.54	16.23	16.23
0530	10.57	17.17	17.17
0600	10.56	17.19	17.19
0630	10.57	17.25	17.25
0700	14.73	20.69	23.20
0730	10.38	20.69	23.20
0800	14.83	22.16	24.67
0830	14.93	20.69	23.20
0900	14.93	22.17	24.67
0930	14.94	22.17	24.68
1000	16.00	22.17	24.68
1030	15.21	20.99	23.50
1100	15.21	20.99	23.50
1130	15.22	20.99	23.50
1200	15.63	20.70	23.21
1230	15.62	20.98	23.49
1300	15.21	20.99	23.49
1330	15.19	20.98	23.49
1400	15.19	17.48	17.48
1430	15.19	17.40	17.40
1500	15.18	17.40	17.40
1530	15.69	17.40	17.40
1600	17.61	17.50	17.50
1630	15.24	17.52	17.52
1700	18.18	22.81	25.52
1730	18.24	35.01	37.82
1800	18.68	35.06	37.86
1830	19.05	32.34	35.01
1900	19.17	22.22	24.76
1930	18.70	23.14	25.65
2000	18.21	21.35	23.86
2030	17.98	22.10	24.61
2100	15.16	20.82	23.33
2130	15.18	20.82	23.33
2200	15.62	19.87	22.37
2230	14.64	17.43	17.43
2300	14.52	17.20	17.20
2330	10.57	17.17	17.17
2400	10.57	17.17	17.17

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.
©Energy Settlements and Information Services Limited

NEWS: INTERNATIONAL

Cabinet may try to pull Israelis out of Hebron

Militant settlers vow to resist evacuation

By Julian Ozanne in Jerusalem

Militant religious settlers in Hebron vowed a campaign of civil disobedience yesterday after Israeli cabinet ministers said the government was considering evacuating the 400 Jewish settlers who live in the West Bank town.

Ministers said the cabinet could decide next Sunday whether to evacuate the settlers from the heart of Hebron – a Palestine Liberation Organisation demand for resuming peace talks after the Mosque massacre of worshippers by a Jewish gunman 10 days ago.

Although ministers stressed such a move would reflect government security concerns for the settlers rather than a concession to the PLO, it would be bound to provoke a storm of protest from right-wing settlers and religious parties, who view Hebron as one of the most important historic sites of the biblical land of Israel.

Hebron settlers said they would resist any government attempt to force them to leave their homes. Rabbi Shlomo Goren, former chief army rabbi who last year told soldiers not to obey orders to evacuate settlements, said settlers preferred to be killed rather than leave Hebron. The rabbi, however, also said Jewish settlers should not fire on soldiers.

Up to 110,000 Palestinians live in Hebron, the burial place of the Biblical patriarchs Abraham, Isaac and Jacob, sacred to both Arab and Jew.

Ministers said there was now a majority in the cabinet for evacuating the Hebron settlers from the town centre to the nearby settlement of Kiryat Arba. Mr Binyamin Ben-Eliezer, housing minister and former army commander of the West Bank, said he was concerned about the Hebron settler's security and the negative impact their presence creates on the peace process.

"So long as they are still there, I believe the thing itself creates friction and draws fire," Mr Ben-Eliezer told Israel Radio.

The cabinet discussion of Hebron came after up to 25,000 Israeli peace activists demonstrated in Tel Aviv on Saturday night and called for action against the settlers.

The PLO, which suspended peace talks after the massacre, says it would return to negotiations only after Israel takes more measures to protect Palestinian lives, disarm the settlers and evacuate some ideological settlements such as the ones in Hebron.

Mr Ahmed Tibi, an Israeli-Arab adviser to Mr Yassir Arafat, PLO chairman, said yesterday the government "should do what it can do to immediately evacuate Jews from inside Hebron as a first step in order to improve the atmosphere for peace talks".

Mr Yitzhak Rabin, the Israeli prime minister, who has so far ruled out evacuating any settlements, drew fire yesterday from cabinet colleagues opposed to his steps to broaden the coalition by including the far right-wing Tsomet party.

The left-wing Meretz faction, Mr Rabin's most important coalition partner, said they would quit the government if Tsomet joined. Political observers said the Meretz ultimatum would effectively kill off Mr Rabin's overtures to Tsomet, which is against evacuating settlements, the peace process and a Palestinian state.

However, Mr Shimon Peres, foreign minister, said that, despite Meretz and Labour party opposition, Mr Rabin would go ahead with negotiations with Tsomet because it was vital to broaden the coalition during the current crisis. Hinting at a possible breakthrough with the PLO, Mr Peres said Meretz would support Tsomet joining the government if they could be shown that it would speed up the peace negotiations with the Palestinians.

The International Monetary Fund has praised Israel's economic reform programme as laying the conditions for high and sustainable growth but warned against complacency over inflation, Julian Ozanne writes.

In a report released in Jerusalem yesterday, the IMF backs Israel's central bank which has clashed with the finance ministry over increasing interest rates to meet an inflation target of 8 per cent for 1994. Inflation last year ended at 11.2 per cent.

The fund welcomed the interest rate increase and said maintaining the full independence of the central bank was important to macro-economic credibility. The fund said the primary focus of Israel's monetary policy should be "attainment of the inflation target". The fund generally praised the economic reform drive but said the process should be reinvigorated, particularly in the areas of privatisation policy, banking sector reform, labour market reform and the further liberalisation of the trade and capital accounts.

An Israeli soldier faces a young Palestinian stone-thrower yesterday in the Gaza Strip refugee camp of Jubalia. Moments later he retreated rather than fire his weapon at close range. AP

Japan ponders trade response

By William Dawkins in Tokyo

Japan's divided ruling coalition will this week hold an emergency cabinet meeting in an attempt to decide market opening measures in response to the latest increase in US trade pressure.

This follows US President Bill Clinton's decision last week to revise the Super 301 provision of US trade law, which gives the US power to impose trade sanctions on countries unfairly impeding its exports. That was a consequence of the deadlock between Washington and Tokyo on ways to reduce Japan's trade surplus and increase demand for imports.

The Japanese government aims to take firm decisions on further steps to open its market to imports by the end of March, said Mr Tsutomu Hata, foreign minister. Among possible measures are further deregulation, incentives for foreign investment and more open government procurement.

The cabinet meeting is scheduled for Wednesday, the day before Mr Warren Christopher, US secretary of state, is due to meet Mr Morihiro Hosokawa, the Japanese prime minister, and senior colleagues, to discuss trade and foreign policy co-operation.

International press review, Page 6

African task force to combat wildlife traffickers

By Leslie Crawford in Nairobi

Law enforcement officers from nine African countries are meeting in Nairobi this week to create a regional task force to fight international crime syndicates dealing in ivory, rhino horn, diamonds, arms and drugs.

"We need a highly mobile team of officers with the authority to operate across borders to penetrate and crack these increasingly sophisticated smuggling networks," says Lt Col Pieter Lategan of the South African police force's Endangered Species Protection Unit.

"With an African task force, we could place wildlife traffickers under surveillance as they move across borders, so that entire networks, and not just individuals, could be apprehended," he said.

Trafficking in wildlife is on the rise, and has become linked to illegal trade in weapons and drugs across southern and eastern Africa. Mr Lategan's unit impounded 2,200 tusks last year – hacked into 22,000 cubes to facilitate smuggling – compared with 130 tusks in 1992.

Kenya seized more than 1,000 kg of ivory in 1993 in a case involving five Koreans and one Ethiopian smuggler. Officials from Kenya's Wildlife Service, who have won plaudits worldwide for their anti-poaching efforts, say they need freedom to cross borders when pursuing poachers and smugglers. They would also welcome extradition treaties to trap ring leaders of international networks.

Zambia arrested 1,500 poachers in 1993 and seized more than 2,000 automatic weapons. Uganda is concerned with the growing illicit trade in chimpanzees and rare birds. Swaziland estimates it has lost 60 per cent of its white rhino population since poachers invaded the landlocked kingdom in 1988.

"Hardened criminals are what we are often up against," says a Swazi police officer. "They deal not only in poaching, but in gun-running, drugs, smuggling, grand larceny and murder."

Mozambique, which is emerging from a 17-year civil war, has become a free-for-all for poaching gangs, including foreign armed forces who regularly invade Mozambique from neighbouring countries. According to the law enforcement officers at the Nairobi conference, it is known that Zambians and Malawians hunt elephants in Tete province, while Tanzanians and Somalis operate along the Rovuma river in northern Mozambique. Ivory and rhino horn are easily smuggled from Mozambican ports, where surveillance is lax.

Officers believe an African Task Force would give them more power to address corruption within their own customs, police and armed forces.

The delegates, from Kenya, Lesotho, Malawi, Mozambique, South Africa, Swaziland, Uganda, Tanzania and Zambia hope the anti-smuggling task force will be operational in 12 months.

Caracas still feeling Latino aftershocks

Joseph Mann on the backlash from the Venezuelan bank's failure

One of the three bankers originally named by the Venezuelan government to take over the failed Banco Latino, the country's second largest bank, recently described how he and his colleagues were surprised late one night to discover that Latino's computer link to the outside world was receiving and transmitting data.

Virtually all of Latino'a activities were supposed to have been halted after the bank was closed on January 14, but it turned out that one of the former shareholders still had access to the bank's main computer through a satellite link from the US, and was working feverishly in its records.

The government-appointed intervention team aubsequently secured the computer and other records from tampering, but they will never be sure how many important items were altered, eliminated or removed by Latino's shareholders, executives or others working on their behalf.

This is but one of the anecdotes produced by the spectacular failure in January of Banco Latino, a bank that grew vigorously under the shadow of political protection of the government of President Carlos Andrés Pérez, who was forced to step down last year on corruption charges.

A judge issued arrest warrants last week for 83 people, including executives and shareholders of the bank, alleging the bank was used to commit massive fraud with funds deposited by the general public, private companies of all sizes, pension funds and even the government.

Bankers and government officials tell their friends – and sometimes the media – how people connected with Latino allegedly carried off bags and suitcases stuffed with US banknotes as it became clear that the bank was close to going under. They have described how hundreds of millions of dollars in loan proceeds, deposits and trust accounts apparently "disappeared".

They have noted how Latino board members had more corporate jets than much larger companies and how the board of directors declared 1993 cash dividends even as the bank was headed for disaster.

The demise of Latino, which the government hopes to reopen, continues to generate shockwaves nationwide. Forced to close by the government after it could not meet daily cheque-clearing payments, despite heavy official assistance, the bank set off a crisis that hit other banks. Several other institutions are now under da facto government control, although they have continued to operate.

The weakness of the banking system was cited as a reason behind the downgrading late on Friday of the government's Euroboods by the US rating agency Standard & Poor's.

Latino's collapse created a huge demand for US dollars that seriously hurt Venezuela's international reserves and forced a deficit-ridden government to produce up to \$2bn (£1.3bn) to assist Latino and the other troubled banks.

It caused financial and personal difficulties for hundreds of thousands of clients ranging from teenagers and low-income retired people to large Venezuelan corporations, government entities and the military, which kept part of their pension fund money with the bank.

One small city in western Venezuela – Puerto Cumarebo - was paralysed financially after its only financial institution, a Banco Latino branch, shut down. Latino also managed to place branches in key areas such as the US Embassy in Caracas and the headquarters of the national oil company, PDVSA.

Even the government's Bank Deposit Guarantee Fund (Fogade) had 38 per cent of its assets on deposit with Latino.

The arrest warrants were issued last Wednesday by a Venezuelan criminal court judge working under heavy police protection. They cover members of tha bank's last board of directors, its senior executives and others, including tha Superintendent of Banks, who was charged with concealment. Other charges covered falsification of financial statements, fraud and illegal appropriation of funds.

The names include members of Venezuela's business elite, most prominently Mr Ricardo Cisneros, one of two brothers who own one of the country's largest business groups, Organizacion Diego Cisneros. They also own Spalding, Evenflow and Pueblo Extra supermarkets in the US, and hold an important stake in Univision, the largest Hispanic television network in America.

Even before the arrest orders were issoed, the Cisneros brothers, Mr Gustavo Gomez Lopez, a former president of the bank, and others were engaging in a bitter exchange of public accusations and counter-claim over blame for Latino's failure.

The Cisneros brothers deny any wrongdoing on their part or on the part of their companies.

Venezuelans were surprised that the judge, Ms Diamora Ramirez de Simancas, had ordered the arrest of wealthy and influential figures. Seldom in the past have prominent Venezuelans been called to answer serious charges or been held responsible for illegal activities.

What has not surprised them, however, is the fact that only one of the 83 has been arrested so far, and that many of the others are believed to have left the country some time ago, despite government bans on international travel.

President Rafael Caldera has promised to bring those responsible for the disaster to justice, which would be immensely popular among a disaffected population.

But whether a legal system implicated in corruption can deliver on the promises of the president and a criminal judge remains to be seen.


George Mitchell: 'Turnover in office is a healthy thing'

Mitchell sets sights on public service

By Jurek Martin in Washington

Washington may still be digesting the impact of the stunning decision last Friday of the Senate's most powerful Democrat not to seek re-election. But Mr George Mitchell himself is portraying his decision as entirely logical and personal.

In several interviews to his native Maine over the weekend the majority leader, who is 60, confirmed that be could be interested in two new cballenges; as commissiooer of baseball, a position that has been vacant for two years, or as a judge on the US Supreme Court when the next opening occurs, possibly later this year should a justice, most likely Mr Harry Blackmun, retire.

But be denied he was pulling out of politics because firm private offers on either score had been made to him. Instead, be maintained that: "I never intended to remain permanently in the Senate" and that "at least for myself, turnover in office is a healthy thing".

He told the New York Times: "I have not ruled out public service. In fact I have specifically ruled it in." He said the Senate had its frustrations, but there had been "great rewards" in the majority leader's role, which he has beld for six years.

The general consensus is that Mr Mitchell, appointed to the Senate in 1980 to fill the unexpired term of Mr Edmund Muskie when the latter became secretary of state, has been an effective, if partisan, director of his chamber, both in opposition to the policies of President George Bush and as a proponent of President Bill Clinton.

When Mr Clinton took office, Mr Mitchell was instrumental in winning votes on the budget and the North American Free Trade Agreement.

His departure does not maka things easier for either the presideot or the party. The most immediate consequence is to raise fresh doubts over the Democratic 56-44 majority in the Senate. Mr Mitchell was considered certain for re-election, but the early favourite to succeed him is Congresswoman Olympia Soowe, tbe Republican and wife of Governoor John McKernan.

Mr Mitchell is the eighth senator – and fifth Democrat – to announce retirement plans this year.

Another senior Democratic senator, Mr David Boreu of Oklahoma, is also considering leaving to become head of the local state university.

Although there is no suggestioo that Mr Mitchell will now devote any less energy to Mr Clinton's legislativa programme, tbe struggle to replace him threatens to be a diversioo lo the comiog months, since there is no clear heir apparent.

The next-in-line in the Democratic hierarchy is Senator Wendell Ford of Kentucky but interest has already been expressed by younger senators, including Mr John Breaux of Louisiana, Mr Tom Daschle of South Dakota, and Mr Jim Sasser of Tennessee. Mr David Pryor of Arkansas, long close to the president, may also command support.

American leaders urged to give priority to crusade

Corruption drive on cards

By Michael Holman and Stephen Fidler

Latin American leaders are expected to join President Bill Clinton in an anti-corruptioo drive to be launched at the forthcoming Summit of the Americas.

Mr Alberto Dahik, Ecuador's vice-president, has called on leaders of North and Latin America to ensure that corruption, "which has a direct impact on democracy and economic development", be given priority at the planned summit.

Mr Dahik is also chairman of the advisory council of Transparency International, the Berlin-based body which campaigns against corruption in international business transactions. His proposal, made after a meeting last week of the groop in Quito, Ecuador, already has White House support.

Leaders of the Group of Seven industrialised countries are also expected to put corruption on their agenda at their meeting in Italy later this year.

A date for the Summit of the Americas, due to be held this year, has not been fixed and the agenda is still fluid. The likely main topic will be the extension of free trade through the western hemisphere.

The US administration is also anxious to use the summit to find ways to improve the accountability and efficiency of government as well as reducing corruption, but would prefer to see the issue raised as a Latin American initiative.

The move comes amid growing concern about the impact of corruption on aid and development, and efforts to promote democracy aod human rights in Latin America, Africa and elsewhere in the third world.

The US is almost alone among industrialised nations in outlawing the payment of bribes to foreign countries. Its Foreign Corrupt Practices Act forbids the making of illicit payments by US companies, a law seen by some US businesses as weakening thair ability to compete for international tenders in some countries.

The US has in the past through the Organisation for Economic Co-operation and Development tried to persuade other industrialised countries to follow its example, with little success.

Leading Chinese activist disappears

Mr Wei Jingsbeng, China's most famous dissident, left Beijing suddenly yesterday, hours before he was scheduled to meet reporters, Reuter reports from Beijing.

Mr Wei was expected to talk about his detention by police in a clampdown before this week'a visit to China by Mr Warren Christopher, US secretary of state.

His abrupt disappearance came as the official Xinhua news agency accused him of violating his parole and police extended their crackdown by taking away a prominent student leader of the 1989 Tiananmen Square protests.

Mr Wei's secratary told reporters the activist had left voluntarily. She said she did not know if police had advised Mr Wei to leave for Mr Christopher's visit, a tectic the authorities have used in the past at sensitive times.

The sweep against more than a dozen prominent dissidents in Beijing and Shanghai has cast a pall over Mr Christopher's visit to China, scheduled to start on Friday.

Mr Christopher has said the issue of human rights was the top priority for his visit, a last-ditch attempt to warn the Communist party it will lose billions of dollars in trade with its key market unless it improves its treatment of dissidents.

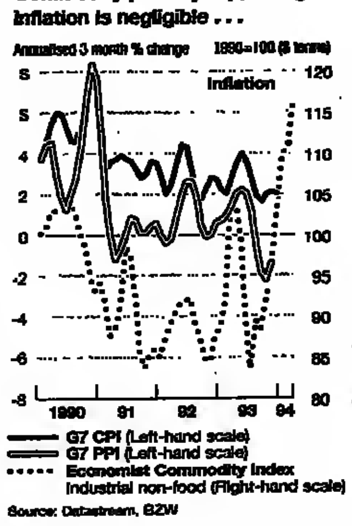
President Bill Clinton must decide by June whether to renew China's Most Favoured Nation trading status. He has repeatedly stated he would only do so if there was a "significant overall improvement" in China's human rights record.

Leading economies show there is little reason to fear a rapid return of the bogey of resurgent inflation

'Output gap' takes edge off worries about prices

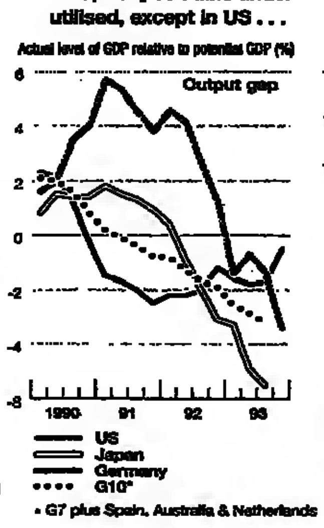
By Graham Bowley

Commodity prices jump, though inflation is negligible . . .



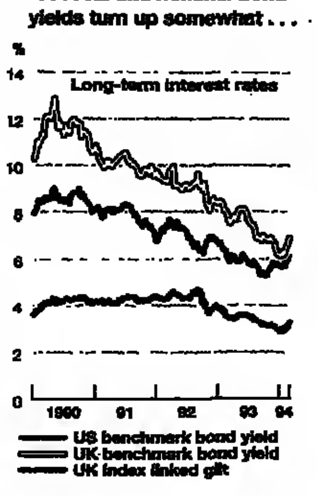
Source: Datastream, BZW

. . . capacity remains under-utilised, except in US . . .

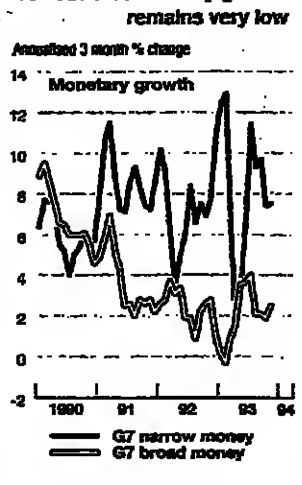


* G7 plus Spain, Australia & Netherlands

. . . real and nominal bond yields turn up somewhat . . .



. . . but broad money growth remains very low



Is the period of increasingly low inflation that the industrialised world bas enjoyed so far thia decade about to come to an end? Recent falls in hond prices suggest that markets think so. But a closer look et the evidence shows that there is little, if any, sign of a resurgence of inflation.

Current inflation remains subdued. Consumer price inflation in the seven major industrial countries has been running at an annual rate of about 2 per cent, while the prices charged by producers at the factory gate have actually heen falling. Japanese producer prices have even heen declining at the remarkable rate of 2.9 per cent a year.

Only commodity prices have been showing evidence of a pick-up in inflation. The prices of industrial raw materials, in particular, have risen steeply over the last eight months, to levels not seen since 1988.

Prices of commodities can be a good predictor of turning points in inflation. This is partly because higher costs feed through into prices. It is also hecause commodity prices are very sensitive to any changes in demand. For this reason, any rise in glohal demand will show up first in commodity prices.

Nevertheless, short-term movementa in commodity prices are far from a reliable predictor of inflation. The price of gold – which Mr Alan Greenspan, the chairman of the US Federal Reserve, has said be regards as a leading indicator of inflation, hecause of its sensitivity to inflationary expectations – has risen a little, hut hardly in a convincing manner.

Only an excess of demand over full cepacity eupply is likely to generate a sustained rise in prices.

A good indicator of how close an economy is to that point is the "output gap", which measures the difference between actual and potential output. Whenever actual output is helow its potential level, inflation ought to decline and *vice versa*.

Although difficult to estimate accurately, the output gap in the 10 major industrial coumtries seems to have been widening since the second quarter of 1991. It continues to do so, which should mean a further strengthening of disinflationary pressures.

Only in the US has the gap been closing. The belief that it could even disappear around the end of this year was one reason why the Federal Reserve, under Mr Greenspan's chairmanship, raised tbe federal funds interest rate on February 4.

The German output gap does remain relatively small, which puts the scale of its recession in context, hut the gap in Japan is very large and widening still further. Outright deflation, rather than inflation, is the main threat to Japanese economic stahility. The UK output gap, though wide, has hegun to close. But UK economic growth is still not much above its underlying trend rate, which suggests that the gap will not be closed for some time.

Over the long term, expansion of the money supply is e prime cause of changes in demand and so of inflation. For soma time the monetary picture in the major industrial countries has been somewhat peculiar. For all that, there is littla to suggest an early resurgence in inflationary demand.

One unusual phenomenon has been the faster growth of narrow money, which consists of notes, coins and commercial bank deposits with the central bank, than of hroad money, which includes the pnhlic's deposits in hanking institutions.

Narrow money has little causal significance in a modern monetary eystem. Despite signs of a alight pick-up, the growth of broad money, which is largely driven by bank lending, has remained very slow indeed. In the US, for example, its annualised rate of growth in the six months to January 1994 was only 2.4 per cent. In Japan it was still less, at 1.6 per cent.

Amazingly, Germany's broad money offers the sole exception to the pattern of generally low growth. It is not surprising, therefore, that bond markets reacted sharply to the shocking figure for German M3 announced last week. But January's annualised increase of 20.6 per cent over the average for the last three months of 1993 was freakish, as even the Bundesbank has argued.

Notwithstanding the lack of any obvious economic reason for concern, the bond market retreat – with an increase in yields of almost one percentage point on US 10-year bonde since October 1993 – would seem to signal the fear that inflation is about to rise.

UK 10-year gilt yields have also risen by a little over one percentage point aince the beginning of 1994. But it is clear in this case that only a little more than half of that increase in nominal yields is due to a change in inflationary expectations.

In the UK the gap between yields on index-linked bonds and on conventional bonds provides a good indicator of these expectations. Since early January the index-linked yield itself has risen hy a little less than half a percentage point, while the gap between the two yields has risen hy a little more than half a percentage point.

Thus a significant part of the change in yields is due to higher real interest rates, themselves presumahly a reflection of greater optimism about world recovery, fuelled hy what is happening in the US, in particular.

It does seem plausihle that the bottom of the current inflationary cycle is now being reached, with financial markets convinced that recovery from recession is well established, especially in the US and UK. Inflotion is unlikely tu fall very much further, therefore, except in Japan and perhaps in France.

Nevertheless, there is also no evidence that recovery would cause global inflation to rise significantly. Current inflation remains suhdued, nutput gaps leave plenty of room for growth, while monetary conditions look far from worrying, except perhaps in Germany. Policy-makers may react cautiously to the turhulence of recent weeks. But there is little reason for them to fear a rapid return of the hogey of resurgent inflation.

Washington sounds calmer note than Wall Street

By George Graham in Washington

US

The choir of economists from the US administration, Congress and Federal Reserve is singing in remarkable unison: there is no cause for alarm over inflation prospects.

"The signs of continuing growth in the economy are signs that suggest growth is occurring without accelerating inflation," Ms Laura Tyson, the chief White House economist, said last week. "Not only is current inflation extremaly modest, hut the fundamentals, the things that explain future inflation – wage patterns, productivity growth, import prices, energy prices, for example – all remain well behaved."

But 235 miles north-east of Washington, Wall Street bond traders are hearing a different tune on prices. Ever since the Fed tightened short-term interest rates to 3.25 per cent on February 4, every signal has been interpreted as a mark of higher inflation on the way. Many Wall Street economists now expect the Fed to tighten further, possihly at its March 22 meeting.

Markets have focused more on rising measures of commodity prices such as surveys of manufacturera' purchase prices conducted hy the Philadelphia regional Fed and hy the National Association of Purchasing Managers, as well as on fears that the unsustainahle growth of the fourth quarter – gross domestic product rose at an annualised rate of 7.5 per cent, according to the latest estimate – could lead to prolonged overheeting this year.

Washington economists, on the other hand, have preferred to look at controlled import prices, moderate wage increases and improving productivity.

The Fed, in its half yearly monetary policy report to Congress last month, acknowledged some commodity factors that could work to lift inflation this year: last year's poor harvest left some crops in short snpply, creating the risk of higher food prices, and the likelihood that last year's decline in energy prices will not be repeated.

Nevertheless, most of the Fed governors and presidents of tbe regional Feds expect consumer price inflation to be close to 3 per cent in 1994 – *though* their forecasts range from 2.25 per cent to 4 per cent.

The Congressional Budget Office, meanwhile, also sees little likelihood that inflation will be a prohlem in 1994 or 1995.

Although manufacturing capacity utilisation is at a rate often associated with inflationary pressures, the CBO notes that strong investment in new plant and equipment should keep the rate from rising much this year. More hroadly, CBO says, the shortfall of GDP helow its potential "will remain large enough to dampen inflation even with economic growth close to 3 per cent".

Although the reviving economy has undouhtedly left less slack in the lahour market, many economists believe productivity *is set to improve* at a rate that should keep the lid on inflation.

The growth rate of unit labour costs has declined from 4.5 per cent in 1990 to a level close to 2 per cent for the last two years. Revised statistics due to be released tomorrow are likely to show that unit labour costs actually fell hy more than 3 per cent in the fourth quarter.

Ms Tyson concludes, like most Washington economists, that coosumer price inflation will indeed accelerate this year from last year's rate of 2.7 per cent hut only to around 3 per cent. "So we anticipate something hut you would hardly call that *a change in the underlying* inflationary fundamentals," she said.

Bad old days have gone though wage concerns remain

By Philip Coggan, Economics Correspondent

BRITAIN

When Britain left the exchange rate mechanism in September 1992, many commentators thought it was about to descend into its old pattern, with a devaluation designed to boost competitiveness merely ending in increased inflation.

Few thought that, nearly one and a half years later, retail price inflation would be just 2.5 per cent. In 1993, growth was much stronger and inflation far weaker than analysts had expected at the start of the year. What is not clear is whether this is just a temporary blip, or whether Britain is starting to escape from its inflationary past.

Most economists feel that UK inflation will stay within the government's 1-4 per cent target range during this year and next. One key factor has been the low growth of wages. Average earnings grew hy just 3 per cent in the year to December 1993. This low wage growth enahled manufacturers to absorb some of the cost increases caused by sterling'a devaluation, and helped keep prices from rising.

Now the focus of inflationary fears has switched. The effects of devaluation on import prices have disappeared from the system and manufacturers' input costs are falling – hy 2.5 per cent in the year to January. But wage rises may now be starting to pick up, in part because unemployment has fallen faster than expected.

Most economists agree that Britain still has an output gap, although not on its size. Pessimists such as Mr Bill Martin of UBS think, however, that Britain is very close to capacity and that inflation will pick up sharply in 1995, rising to 7.7 per cent in the fourth quarter.

But Mr Tim Congdon, one of the British chancellor's six independent economic advisers, expects an annual rate of inflation of just 1.7 per cent in the fourth quarter of 1995. He believes the output gap is still substantial and that the lagged effects of slow monetary growth in the early 1990s are still working their way through the system.

Improving picture likely to soothe historic fears

By Christopher Parkes in Frankfurt

GERMANY

The short-term trends in west German inflation are so clear – at least in the minds of private and puhlic sector economists – that many are now looking well beyond the end of the current year. Most expect an average rate of 2.5 per cent in 1995, tailing off to 2 per cent early in 1996. Thie is the Bundeshank's magic "normative" rate, regarded hy the central bank directorate as real price stability.

The signs are certainly firmly set for an average of 3 per cent being comfortably achieved or even bettered in the current year after 4.2 per cent in 1993. The annual rate was already down to 3.3 per cent in Fehruary, desplte a raft of increases in fuel taxes and insurance and penslon premlums which pushed January's year-on-year inflation up to 3.5 per cent.

Underlying the current downtrend is an increase in the price of goods of just 2.3 per cent in the past 12 months. Even though some rises are predicted this year in producer prices and the cost of imports, and allowing for the likely appreciation of the D-Mark against the US dollar, feeble domestic demand is expected to counter such effects.

Falling real incomes and sharply rising unemployment last year helped depress retail sales by a real 4 per cent. No improvements are in sight since real earnlngs are likely to decline again this year and next, despite the current industrial unrest over pay negotiations. Meanwhile, continuing fierce international competition will tend to reduce the price of industrial products.

This promising picture was clouded for much of last year hy sharply rising rents and high charges for private services. But the tide has turned, and hoth trend lines now point firmly downwards. Rents, which have an 18 per cent weighting in the consumer prices index, were soaring hy almost 7 per cent year-on-year last summer. They are now going up hy lesa than 5 per cent. The cost of private services – 25 per cent of the CPI – formerly rising hy 7.5 per cent is now increasing at around 5 per cent.

Other favourable factors include federal and local governments' understandahle reluctance to increase taxes or administered prices in an election year.

Unquantifiahle, hnt not to he forgotten, is an inhnilt, historical dread of inflation among the German people.

A recent survey hy the Munich Imas institute found 70 per cent of the population were finding life uncomfortable. The main sources of their depression were fear of unemployment (65 per cent), crime (60 per cent) and inflation (55 per cent).

INTERNATIONAL PRESS REVIEW

New York

While the New York City press remains unsure whether last Tuesday's shooting of four young orthodox Jews on Brooklyn Bridge was a ploy by an Arab terrorist to undermine the PLO-Israeli peace talks, or simply an opportunist'a attempt to gain revenge for the Hebron massacre, the newspapers hava agreed on one thing: that Mayor Rudolph Giuliani has earned the city'e respect for his skilled handling of the affair.

"Within hours of the shooting, the mayor and the police department created a sense of control that gave the public a reason to feel confident in their government," said an editorial in **The New York Times.**

Under the headline "Giuliani Had Right Stuff", **Newsday** reported that the mayor's calm, assured performance in the immediate aftermath of the shooting – when it was feared that the attack might trigger unrest between the city's Jewish and Arab populations – won widespread praise.

Other papers, including **The Daily News**, noted how the praise for Mr Giuliani contrasted with the criticism that was aimed at the failure of his predecessor, Mr David Dinkins, to react quickly to an outbreak of violence between orthodox Jews and blacks in Brooklyn two years ago. Mr Giuliani clearly wants to capitalise on all this goodwill, for Newsday reported that he is keen to arrange a summit between New York's Jewish and Arab leaders.

While praising the mayor and the police for their quick work in arresting a suspect in the case, the city's press has also followed Mr Giuliani's advice not to jump to too

Giuliani: much praised

many conclusions about what motivated an Arab man to fire on a mini-van full of orthodox Jews. With four Arab New Yorkers having just been convicted of conspiracy in the World Trade Center bombing, caution was called for.

Tha Times said: "If the ettack was the act of one mad individual, it needs to be divorced from the broader tension hetween Arabs and Jews. And if it was a larger political act, there is all the more reason to demonstrate, as the mayor emphasised, that most people in thia city of immigrants are not terrorists."

GERMANY

The German government's decision last week to press ahead with the Transrapid super-fast magnetic levitation train, by huilding a line from Berlin to Hamburg, was presented as e technological triumph by its supporters.

Mr Matthias Wissmann, the transport minister, warned against the familiar "doubters" in the federal republic who might try to hold it up. This time, ha declared, they would not succeed.

Yet the German press appears to be full of them. Even **Handelsblatt**, the conservative daily newspaper for the business community, is not convinced it will really happen.

It is not just the vociferous environmental lobby which is already whipping up a campaign against the 400 km/hour monorail train, the newspaper said: "Many of the opponents of tha project argue from a high level of expertise," not least the transport ministry's own panel of scientific advisers.

Their main objection, the newspaper's commentator Eberhard Krummheuer pointed out, was over the private sector'a financial and operating plans for the Transrapid. They questioned the traffic forecasts and the likely level of federal finance required. They warned it could all prove much more expensive for the national exchequer than the present plans imply.

Industry is all for it, Handelsblatt admits, but mainly because of the lack of export success of the high-speed ICE train against the French-built TGV. Yet Transrapid's export prospects remain for the time being no more than wishful thinking. Moreover, any big export contracts, as in tha case of high speed trains, will depend on a very high proportion of local content: they will not create many jobs in Germany.

Munich'a **Süddeutsche Zeitung** fears the whole scheme will be a "multi-billion flop". "The fact is that industry and tha politicians are beavering away to prevent the multi-billion risks of the project coming out into the open," it says.

As for the **Frankfurter Rundschau**, a traditional aupporter of the opposition Social Democrats, the whole decision is "financially indefensible, senseless in transportation terms, and questionable from the point of view of industry". Everyone else in Europe is pressing ahead with high-speed trains, it says. And Bonn simply has not got the cash in the public kitty to go it alone.

If the doubters in the press are to be believed, Mr Wissmann may still be proved wrong, and Germany may yet go through years of further debate before it launches the next generation of rail technology.

Japan

The sport of lambasting the prime minister's character and political judgment in the national press has taken on in a big way in Japan over the past week.

Mr Morihiro Hosokawa, Japanese prime minister, has received a drubbing almost as merciless as that meted out in recent months to his British counterpart, for his last-minute decision to abort a much-publicised cabinet reshuffle and failure to avert US threats of trade sanctions.

The worst insult came from the **Asahi Shimbun**, Japan'a second-largest newspaper, which likened Mr Hosokawa to an unsuccessful sumo wrestler who refuses to accept the rules of the game and keeps climbing back into the ring after he has been defeated. "This is typical of the second generation salaryman," the Asahi mysteriously comments.

"The prime minister brings up serious matters one after the other and subsequently retracts them in confusion," says the Asahi, referring to Mr Hosokawa'e recent U-turn on tax reform: "What is in

Hosokawa: much insulted

question is not so much his leadership but. . . his judgment."

Mr Hosokawa'a personal authority has been diminished as a result of the reshuffle row, said the **Yomiuri Shimbun**, Japan's largest daily. However, it cited as a mitigating factor that running a coalition government was understandably difficult given that this was e new experience for Japan.

Mr Hosokawa's problem is that he belongs to the *shinjinrui* (generation of "new human beings"), which gave him high ratinga in the opinion polls but a weak sense of policy direction, alleged the **Mainichi Shimbun**. "Some people say that Mr Hosokawa'a political ideas and policies are hard to discern," wrote Mr Yoshihisa Inoue, a Mainichi commentator.

The Japan Times joined in the chorus, warning that the weakness of Mr Hosokawa's leadership would jeopardise Japan's ability to resolve its trada dispute with the US.

Contributions by: Patrick Harverson in New York, Quentin Peel in Bonn and William Dawkins in Tokyo

Heseltine set to focus on competitiveness

By Roland Rudd

Mr Michael Heseltine, UK trade and Induetry secretary, is planning an ambitious framework to co-ordinate tbe British government's economic policy in a sweeping wbite paper on competitiveness.

The white paper, which will cut ecross several Whitehall departments, is designed to give the Department of Trade and Industry a bigger role in formulating policy acroes a wide range of areas.

While the paper has been planned for several months, the scope of its remit may be seen as the lastest attempt to raise Mr Heseltine's profile in the event that the government's low standing in the opinion polls prompts a leadership election.

After a week in which he distanced himself from government policy over arms exports to Iraq, being investigated by the Scott inquiry, and delivered a barnstorming speecb to the Commons, Mr Heseltine yesterday insisted: "I believe John Major will lead us to win the next alection and my position is entirely that of a loyal member of his cabinet helping him to do it."

Mr Heseltine's decision to address issues such as long-term financing for companies, education, training and infrastructure funding has irritated some senior Whitehall officials in other departments.

They have insisted that the DTI will have to submit its paper to the cabinet office, which has set up a committee representing civil servants from all departments affected.

Nonetheless, Mr Heseltine has made it clear that he has the strong backing of the prime minister and Mr Kenneth Clarke, the chancellor, to establish an approacb to government economic policy in which the DTI would have e more prominent role.

While the paper is yet to be drafted, those involved in its preparation have began to focus on what they call "factors of productivity" which influence corporate competitiveness.

Mr Heseltine's advisers are understood to believe the City, for example, does not provide companies with adequate long-term finance.

The paper will argue the government should build on the 1980s approach of privatisation and deregulation, hy developing policies to support British companies in the 1990s.

His advisers are also looking at whetber a single Whitehall department should take responsibility for vocational and academic qualifications, whicb are currently split between the departments of education and employment. The paper will also examine proposals to increase private finance for puhlic infrastructure projects.

The competitiveness paper will not be published until the Commons all-party trade and industry committee completes its own study into Britain's competitiveness, which is not expected until the end of the month.

Survey indicates freight companies 'hostile' to tunnel

By Charles Batchelor, Transport Correspondent

Transport companiee are *hostile* to the Channel tunnel and are unlikely to make much use of it for freight shipments, according to e survey published today. Only a quarter of British freight companies questioned thought the tunnel would have e positive effect on their business.

The poll of 102 senior executives carried out in January by MORI for Scania, a manufacturer of heavy trucks, found 62 per cent of transport companies believed their drivers would prefer to stick with the ferries. Some 84 per cent thought that the ferries would offer better facilities.

"We've managed perfectly well without the tunnel; I don't see it making a big difference except for the novelty value," commented one transport company executive.

Mr Dieter Merz, managing director of Scenia (Great Britain), said: "Eurotunnel has predicted it will carry more than 8m tonnes of freight in its first full year of operation and its aim is to take a significant share of the ferries' freight business. Our survey shows it may be in for a surprise."

The start of freight services through the tunnel was planned to start today but has been postponed until some time in March or April. Difficulties in completing testing and safety checks have been blamed for the delay.

Only 4 per cent of freight operators questioned in January had decided to make use of the tunnel while just 44 per cent felt that industry needed e tunnel to make shipments to the Continent.

Only 16 per cent of transport companies polled believed the tunnel would be cheaper to use than the ferries. Unlike passenger fares, shippers negotiate individual rates with Eurotunnel, whicb will operate shuttle services between Folkestone and Calais.

Only one in five companies said it would use the tunnel if costs proved to be higher than the ferries.

"The tunnel will need to set competitive prices for freight to attract haulage companies away from a ferry service which seems to be more than satisfying their needs," the survey said.

Transport companies saw the main advantage of the tunnel as speed but very few executives mentioned the other benefits which the tunnel claims to provide; reliability, frequency and convenience, the survey said.

It said also that French transport companies had given more thought to using the tunnel and 55 per cent thought it would have a positive effect on their business.

Unions briefly hold upper hand

David Goodhart and Robert Taylor on the effects of EU law on regulation of the British labour market

Last week was an unusually good one for British trade unions. A well-received "re-launch" of the Trades Union Congress was followed by two favourable court judgements, based on worker-friendly European law.

First came the ruling from the European Court's advocate general that employees must be properly consulted in collective redundancies and transfers of business ownership, even where there are no recognised trade unions.

Then came the judgement by the law lords to reduce from five years to two the qualifying period for redundancy pay and unfair dismissal rigbts for part-time workers.

It is not clear whether these judgements – and others to come – will significantly hinder the British government's programme of labour market de-regulation. But they do lend weight to the view that the government's opt-out from the social chapter of the Maastricht treaty has given it strictly limited immunity from European employment law.

Right and left agree on this point. "Our victory in securing an opt-out from the social chapter just over two years ago is looking increasingly hollow", said Mr Ira Chalpin, of the aggressively free-market Institute of Directors. While supportere of European employment law, such as labour lawyer Mr Simon Auerbach of Patteson and Brewer, said: "The tide of social directives and the way they are implemented will not he stopped by our opt-out".

The government itself seems uncertain how to respond to the latest moves. Mr David Hunt, the employment secretary, today lodges a formal appeal against the European Union's working time directive which, despite being watered down, could introduce important new minimum standards in the UK on holideys and working hours.

Advisers to Mr Hunt in the Employment Department were last week taking a relaxed view of the two judgements. On the part-time workers judgement it is estimated that only about 500,000 of Britain's 5.8m part-timers will he affected. The number will be higher if those working under 8 hours per week are included, something the judgement is not clear about. But even the European Commission is recommending the exclusion of such workers from its own directive.

It is difficult to calculste what kind of disincentive to part-time employment might be created by introducing protection from unfair dismissal three years earlier, but most analysts say it is not likely to be large. Similarly, the minimum redundancy pay requirement is one week's pay per year of service up to a maximum of 12 weeks, which is unlikely to generate more than a maximum of £500 for a part-time worker.

There remain powerful incentives favouring the continued growth of part-time employment from a flexibility, cost and regulatory point of view. For example, for those paid under £56 per week employers still do not have to pay National Insurance, statutory sick pay or maternity benefit. And those employers who do find tbe new unfair dismissal rules troublesome can simply switch workers to rolling temporary contracts, to prevent them reaching the qualifying threshold of two years coutinuous employment.

The requirement to consult workers representatives in certain circumstances, even where (as in a growing number of UK workplaces) there are no recognised unions, has e less predictahle outcome and is likely to be fought hard hy the government.

It will not mean the introduction of a right to union recognition or the emergence of permanent works council-type bodies in Britain. Nevertheless, according to one European Commission official it will not be sufficient for employers to inform all workers individually of the business transfer or redundancies. "Some sort of election system will be needed to establish a worker representative," said the official. But he added that the system could be immediately disbanded once it had served its function and that many smaller organisations would be excluded.

These are not the only European employment law issues. Over the coming months the government can expect:

● A possible bill for tens if not hundreds of millions of pounds from workers claiming compensation for loss of earnings or dismissal as a result of the government's failure to properly implement the Transfer of Undertakings (Protection of Employment) legislation, which gives workers some protection in cases of husiness transfer. Companies successfully sued hy workers will also be seeking compensation.

● Little joy in getting contracting ont from the public sector excluded from the Tupe regulations. The iatest draft of a Commission discussion paper merely suggests that Tupe should apply to genuine organisational entities and not to individual people.

● Pressure to raise the £10,000 maximum compensation limit for cases of unfair dismissal. As e result of EU legal judgements, maximum compensation limits have already been lifted from awards given to workers found to have suffered from sex or race discrimination, which is leading to substantial damages belng awarded.

● A new round of employment directives from Brussels. The Commission agenda bas recently shifted from improving the rights of those already in work towards greater concern for job creation and competitiveness. Bnt the Green Paper on social policy currently under discussion could form the basis of a new round of legislation, against which Britain's opt-out would provide only limited protection.

Britain in brief

Tax fears mar upbeat mood on economy

Confidence about economic prospects is rising but many husiness leaders are worried by the prospect of next month's tax increases, according to survey published today by the Institute of Directors.

The poll of 302 companies across manufacturing and services indicates that sales volumes have risen since Decemher although the rate of increase in orders and profits has fallen back.

According to the survey, conducted last month, 53 per cent of companies are more optimistic about the economy than six months previously. That compared with a result of 47 per cent in the last survey in December, though well below the 65 per cent figure recorded last August.

Nearly two thirds of the companies said they were more bopeful abont their own husiness's prospects than six months previously, a hetter resnlt tban the 58 per cent who gave this answer in Decemher. Just over three fifths of companies heve stepped up sales volumes, slightly above the figure at the end of last year.

Mr Peter Morgan, director general of the institute, said the economic npturn was continuing though "muted". He said business confidcnce could be expected to dip ahead of the tax increases wbich are likely to depress consumer spending and company order books.

TV companies in sport talks

Britain's Independent Television companies are considering co-operating with cable television groups in such areas as acquisition of rights to televise major sporting events.

One possibility is a joint bid for rights to the Five Nations Rugby Competition. There could also be talks about sharing World Cup Cricket rights. A consortium of cable companies recently bought exclusive rights to show the competition in the UK. Cable is still limited to not much more than 600,000 homes out of the total of 21m television homes in the UK.

Fire hampers R-R research

Rolls-Royce will today be contacting customers of International Research and Development, part of its nuclear engineering division, to reassure them in the wake of a severe fire wbich destroyed part of IRD's Newcastle premises at the weekend.

IRD carries out materials testing and other research, its clients including Nuclear Electric, National Power and PowerGen.

Construction plant sales up

Construction equipment sales rose by 42 per cent in the UK last year after three years of decline that left the market at its lowest level in living memory, according to a report by Corporate Intelligence Group, the London-based analysts.

The rise in volume sales, from 9,236 units in 1992 to 13,017, was nearly twice as much as was predicted a year ago. It means the UK was the only major European construction equipment market to rise last year.

The group predicts a further 11 per cent rise this year, hut even thet would still leave sales a long way short of the 21,710 units sold in 1989.

Survey shows cheques decline

Cheques are falling ont of use in favour of plastic cards and direct debits, according to previously unpublished research carried out for Girohank, the banking subsidiary of Alliance & Leicester.

Over 60 per cent of people questioned said they expected to be using cash in five years' time mnch as they do now.

Ahont three-quarters of those questioned had a bank or building society current account, and a comparison of payment methods in the 1992 and 1993 surveys, fonnd an increase in direct dehits and debit cards.

CONFERENCES

LEGAL NOTICES

Notice of Appointment of Administrative Receivers
MAGGOT FARMS (YORKSHIRE) LIMITED

Registered No: 913472. Trading name: YMF Fishing Tackle. Trade Classification: 01 and 39. Name and address of joint administrative receivers: David John Stokes and Michael Joseph Moore, Coopers & Lybrand, 1 East Parade, Sheffield, S1 2ET. Office holder numbers 2682 and 5562. Date of appointment: 24 February 1994. Name of appointor: Barclays Bank plc.

LONDON STOCK EXCHANGE DEALINGS

THE INFORMATION shown on this page, which appears every Saturday, is supplied to the Financial Times by the London Stock Exchange.

Stocks shown are selected by the Stock Exchange from among those companies and securities whose prices do not appear in our daily London Share Service.

The Saturday selection changes frequently, according to the volume of trading in individual stocks registered by the Stock Exchange during the week ending on each Thursday. Thus if no dealing takes place in a stock, it will not be included in the following Saturday Dealings page.

THE WEEK AHEAD

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Barr (A.G.), Kidsons Impey, 274, Sauchiehall Street, Glasgow, 11.00
Celltech, The Brewery, Chiswell Street, London, E.C., 11.30
Treatt, Bedford Lodge Hotel, Bury Road, Newmarket, Suffolk, 12.00
BOARD MEETINGS:
Finals:
BBA
Brit. Polythene Inds.
British Vita
Candover Invs.
IMI
Intrum Justitia
Perkins Foods
USDC Inv. Tst.
Interims:
Close Brothers
Cornwell Parker
Domestic & General
Hays
Lloyds Chemists
Perpetual Japanese Inv. Tst.
Pict Petroleum
Waterglade Int.

■ TOMORROW
COMPANY MEETINGS:
Eurotherm, Beach Hotel, Worthing, West Sussex, 12.00
First Leisure, 1, West End, Leicester Square, W.C., 12.00
Kelsey Inds., Kelsey House, Wood Lane End, Hemel Hampstead, 11.00
PWS Hldgs., 52, Minories, E.C., 12.00
BOARD MEETINGS:
Finals:
Brent Int.
Burnfield
Expamet Int.
Gartmore
Gibbs & Dandy
INSTEM
Laporte
Plantsbrook
Sumit
Sunleigh
WPP
Wates City of London Properties
Interims:
HTR Japanese Smaller Co's Tst.
M.R. Data Mngmnt.
Polypipe

■ WEDNESDAY MARCH 9
BOARD MEETINGS:
Finals:
BAT Inds.
Bluebird Toys
Cadbury Schweppes
Exeter Prf. Cap. Inv. Tst.
F & C Inv. Tst.
Glynwed
Harrington Kilbride
Holliday Chemical
Jessups
Kleinwort Smaller Co's Inv. Tst.
Metal Bulletin
M & G Inc. Tst.
M & G Recovery Tst.
Microvitec
Portals
RTZ
Relyon
Select Appointments
Singer & Friedlander
Standard Chartered
T & N
Transport Development
Interims:
Logica
NM Smaller Australian Co's Tst.

■ THURSDAY MARCH 10
COMPANY MEETINGS:
First Philippine Inv. Tst., Knightsbridge House, 197, Knightsbridge, London, S.W., 10.30
Lookers, Lancashire County Cricket Club, Talbot Road, Stretford, Manchester, 12.00
Trio, Stationers' Hall, London, E.C., 2.30
Windsor, Lyon House, 160-166, Borough High Street, London, S.E., 11.30
BOARD MEETINGS:
Finals:
Christies Int.
Clarke (T)
Cussins Property
Enterprise Oil
Ferry Pickering
Fife Indmar
Hillsdown
Jacobs (John I)
Kode
MTL Instruments
Manders
Pentland
Refuge Grp.
Rolls-Royce
Sheffield Insulations
Spear (JW)
TI Grp.
Telemetrix
Victaulic
Interims:
BM Grp.
BZW Endowment Fd.
Mucklow (A & J)

■ FRIDAY MARCH 11
COMPANY MEETINGS:
Alexanders Hldgs., 7-10, Old Park Lane, London, W., 11.00
Central Motor Auctions, Auction Centre, Pontefract Road, Rothwell, Leeds, 12.00
Eurocamp, Cottons Hotel, Knutsford, Cheshire, 2.30
French (T), Sharston Road, Wythenshawe, Manchester, 12.00
BOARD MEETINGS:
Finals:
Abbott Mead Vickers
Abtrust Lloyds Ins. Tst.
Forward Technology
Radius
Takare
Vivat
Interims:
Headway
Walker (Thomas)

Company meetings are AGMs unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Bank of Greece 10¾pc Ln. 2010 £5.375
BP America 12¼pc Nts. 1996 $122.50
Brit. Gas Intl. Fin. 6¾pc Bds. 1997 $67.50
Citicorp Gtd. Fltg. Rate Cap. Nts. 1996 $51.04
Colorvision 2.5p
Ewart 0.4p
Republic of Finland 10⅛pc Bds. 1997 £101.25
Fujitsu 6.3pc Bds. 1997 Y630,000
Guaranteed Export Finance 9¼pc Bds. 2008 £925
Do. 7⅝pc Nts. 1997 $762.50
Hardys & Hansons 5.5p
Hydro-Quebec 9pc Dbs. 1994 $450
Leeds Perm. Bldg. Soc. 11½pc Nts. 1996 £575
Lockheed $0.53
Mitsui Fixed & Fltg. Rate Nts. 1998 Y2,500,000
Redland Global Funding 12⅞pc Nts. 1994 A$1,287.50
Richards 1.93p
Rockwell $0.25
Sanwa Fin. Aruba Gtd. Fltg. Rate Nts. 2002 $505.56
Tolux $0.35
Woolwich Bldg. Soc. Fltg. Rate Nts. 1996 $134.63

■ TOMORROW
Cardiff Automobile Receivables Securitisation Class A Fltg. Rate Nts. 1997 £142.09
Do. Mezzanine Fltg. Rate Nts. 1997 £167.98
Clayhithe 0.75p
Fuji Intl. Fin. 8⅞pc Bds. $4,437.50
Do. Fltg./Fixed Bds. 2001 $500
Hampson Inds. 0.5p
Natl. Aust. Bank Var. Rate Nts. 2000 £145.48
National Westminster Bank Var. Rate Cap. Nts. 2009 £138.70
Nationwide Bldg. Soc. Fltg. Rate Nts. 1995 £132.30
Renold 7⅝pc 2nd Deb. 1992/97 £3.8125
Tenneco $0.40
3i Fltg. Rate Nts. 1997 £140.24
Treas. 10pc 2003 £5
Treas. 7¾pc 2006 £3.875

■ WEDNESDAY MARCH 9
Anheuser-Busch $0.36
Brasway 0.24p
Funding for Homes 10⅛pc Deb. 2018 £5.0625
Kelsey Inds. 5p
New Throgmorton Tst. (1983) 1.5p

■ THURSDAY MARCH 10
Albion 0.5p
Allied Signal $0.29
Carclo Eng. 1.9p
Chevron $0.925
Dun & Bradstreet $0.61
Exxon $0.72
Fuji Bank Intl. Fin. Fltg. Rate Nts. $10,593.75
General Motors $0.20
Do. (1/20th Share) $0.01
Grace (W.R.) $0.35
IBM $0.25
Lilly (Eli) $0.625
Mobil $0.85
Nationale Investingsbank Fltg. Rate Nts. 2002 $128.84
SABRE Intl. Series N Var. Rate Nts. 1996 Y55,000
Do. Series Q Var. Rate 1996 Y60,000
Sun Co $0.45
Treas. 5½pc 2008/10 £2.75
Utd. Tech. $0.45
Warner-Lambert $0.61

■ FRIDAY MARCH 11
Border TV 1.6p
E.I.D. Parry (India) Rand1.5
Kubota Fltg. Rate Nts. 1997 Y58,972
Lloyds Bank 10¼pc Bds. 1998 £1,025
Manweb 7p
Monsanto $0.58
Scottish Power 4.13p
Siemens DM13.0

■ SATURDAY MARCH 12
Hong Kong Inv. Tst. 0.75p

■ SUNDAY MARCH 13
Hydro-Quebec 12¾pc Ln. 2015 £6.375

■ Russia and West vie for Baku's black gold; economic reforms stalemated PAGE II

FINANCIAL TIMES SURVEY

AZERBAIJAN

■ Fiercest war in the ruins of the USSR; foreign policy on the Caspian Sea PAGE III

Monday March 7 1994

Azerbaijan is one of the most blessed of the former Soviet states.

Offshore, its oil and gas reserves are enough to ensure huge revenues for decades ahead, if properly exploited. The capital, Baku, is one of the world's great ports and has an infrastructure which, though ageing, remains serviceable.

The country is a rich producer of fruits and vegetables. It has areas of great beauty. Its people are Moslem (if they are anything), but of a moderate, mind-your-own-business kind.

Beneath the coarsened Soviet manners there is courtesy and civility to be found. The netional aspiration, it seems, is to emulate secular and booming Turkey, to whose people the Azeris are ethnically and linguistically close.

Its present tragedy is a war which has swallowed up more than one fifth of its land surface, rendered some 1m of its people into refugees and now accounts for nearly half of its budget.

At the time of writing there is another Russian-brokered effort to achieve peace between Azerbaijan and its closest neighbour and enemy, Armenia. However, the last five years have seen a war becoming steadily more bitter and intractable, with most of the victories falling to the Armenians.

Were the war to end, Azerbaijan would have problems enough. It was a poor state even by Soviet standards, and both the capital and the provincial towns, the roads and the farms, show it. But it could embark on modernisation and investments with a much greater hope of rapid success than most of its former fellow Soviet republics.

The Azeris are a predominantly Turkic people (though the ethnic composition is a matter of debate) who have lived in the area for many centuries. There are millions of Azeris still living in Iran, a legacy of the time when the Azeris were divided between the Tsarist and the Persian empires.

The people became a nation only briefly, when a republic was declared after the collapse of Czarist rula in 1918 – but it lasted only until the entry of the Red Army into Baku when the republic was incorporated into the Caucasian Federation and then later received republican status.

This aettlement also appeared to favour Azerbaijan in another way – it gave it control of the enclave of Nagorno-Karabakh towards the west of the country, a beautiful region then largely (and now wholly) dominated by Armenians. Further, it gave to Azeri control the region of Nakhichavan on the south west of Armenia, a region which has a section of border with Turkey.

Nagorno-Karabakh proved to be the deadliest of nationalist landmines. It exploded first in 1988, when the relative liberality of Mikhail Gorbachev's rule stimulated increased nationalist fervour in Armenia, and saw first the Karabakh then the Armenian parliament adopt motions demanding the transfer of Karabakh to Armenian control.

Though the radicals of the Karabakh Committee were jailed - they included Mr Levan Ter-Petrosian, the current Armenian president – the Armenian Communist Party was itself split over the issue and functioned more as the moderate wing of the nationalist movement than as a suppressor of it.

Fighting within and around Karabakh gave way to fighting in and around the borders of the two states: in 1992, the Armenians drove a corridor between Armenia proper and the enclave through the Azeri town of Lachin. Last year, a failed offensive by the Azeris turned into a sustained advance by the Armenians, to the point where most of the land round Karabakh, stretching deep into Azeri territory, is now in Armenian hands.

The instability generated by both the war and the Soviet collapse at the end of 1991 has meant that Azerbaijan has had three presidents in as many years. Mr Ayaz Mutalibov, a Gorbachev-era communist, hung on unsteadily until 1992. He was succeeded by Mr Abolfaz Elchibey, the candidate of the Azeri Popular Front, a nationalist grouping which arose in response to the radical nationalism of the Armenian Karabakh Committee.

The APF promised a much more aggressive prosecution of the war than the weak and temporising post-communist regime. But it could neither win the war nor conclude peace.

A radical turn towards Turkey and away from Russia, coupled with a rather contemptuous refusal to join the Confederation of Independent States, prompted Russian troops to evacuate all the positions they held in Azerbaijan. There was now no force able to withstand the much more highly motivated and better armed Armenian fighters.

After the rout of last year, President Elchibey invited the popular Mr Heydar Aliev, leader of Nakhichevan and the former Communist Party First Secretary of Azerbaijan (and member of the Brezhnev Politburo) to lead the parliament. A few days later, the man Elchibey had fired as commander of the forces fighting the Karabakh Armenians, Mr Surat Huseinov, led a march of his units on Baku with a demand that the president be deposed. Elchibey fled (there was no conflict), Aliev was elected president and Huseinov became prime minister.

The policy which Mr Aliev has tried to follow is a blend of geopolitical necessity and economic realism. He has taken a sharp turn back towards Russia. "What should we do?" he asked in a recent interview with the FT. "Should we simply continue to annoy her? She is a great power and will continue to be. She has been involved in the fate of Azerbaijan for two centuries. She must be at the centre of our policies."

At the same tima, he has sought to keep open his lines to Turkey – he had what was billed as a successful visit there last month – and he has, in visits to France and Britain, opened up lines of contact with Western states to redress what he believes is the dominant position occupied by the Armenian lobby in Western thinking on Nagorno-Karabakh.

He claims a firm attachment to democratic values and to a market system – though warns against "pseudo democrats indulging in the democracy of the streets" and says it will take some time to build a culture which can sustain democratic institutions. His presidency, solidly supported, remains the pivot of the state. His experience and toughness are unquestioned (he was head of the Azeri KGB as well as first secretary) and he has introduced a so far mildly authoritarian rule which has put some of his opponents in prison, others in exile (though Elchibey still lives in freedom in Nakhichevan), others still in parliament.

The press is numerous and relatively free, there are signs of private enterprise and the moment may now be more promising for peace talks than any in the past five years.

The oil men, who have sat in Baku for two years waiting for one of the largest deals in the world (estimated at around $9bn) still sit, but with better expectations of signing a deal than for some months. The consortium, which includes British Petroleum, Statoil, Amoco, Pennzoil, Unical, McDermott and Ramco, have been much more keen to sign a deal in war-torn Azerbaijan than in peaceful Russia – largely because the partners believe that it can be made to stick, since the government and the oil companies are at one and the legislation and tax regime can be friendlier than they have yet been in Russia.

This first FT survey of Azerbaijan thus comes at a more hopeful time for the fledgling state than any it has experienced since its independence – an independence it did not actively seek. If it is to grow to full statehood, it needs both peace and economic development very badly. It may get these, if the hopes now visible grow and are fulfilled.

John Lloyd

Wealthy, beautiful, and bleeding

Azerbaijan is rich in oil and gas, has a fine climate and fertile soil. But it is being badly hurt by the rebellion of its powerful Armenian minority

WAR AND WEALTH. Above: a baby watches from its mother's back as relatives mourn for an Azeri victim of the war in Nagorno-Karabakh. Right: a "nodding donkey" pumps oil in one of Baku's rich oilfields on the Caspian Sea

Steve LeVine on how Russia, the West and Turkey are jockeying for Baku's oil favours

The Great Game revisited

Crude is not necessarily the first word on the lips of Western and local oilmen in the Azerbaijan capital, Baku. These days their first utterance is just as likely to be "Russia".

The oilmen are preoccupied by a revival of the 19th century Great Game, in which Russia vied for influence in the region against Britain, Iran and Turkey.

The new round of this old game threatens to block a $11.8bn British Petroleum-led oil proposal to resurrect Baku as a world oil leader.

One of three new oil producing republics on the shores of the Caspian Sea, Azerbaijan possesses more than 4bn barrels of proven oil reserves. Industry analysts believe that together with Kazakhstan and Turkmenistan, Azerbaijan could form the world's third-largest oil-producing region, after Siberia and the Gulf.

For Azerbaijan, a century after Robert Nobel developed the Baku oil fields, the same resource could be the basis for Azerbaijan's long-term independence from Moscow for the first time since Czar Alexander the First's conquest of the area.

President Heydar Aliev has just delayed a contract with the BP-led group, in what industry analysts see as the beginning of a pitch for more Western aid against a Russian effort to consolidate Moscow's economic and political influence in the region two years after the fall of the Soviet Union.

Oil is seen as the key to Baku's independence from Moscow for the first time since the area was conquered by Czar Alexander the First

"In Aliev's mind, he's negotiating Azerbaijan's international future, using the only commodity he's got – the oil," said a Western oil executive involved in the Baku negotiations. "He's trying to get as much as he can before giving it up."

The revival of Great Game politics on the shores of the Caspian comes four years after Western oil companies began speaking with Azerbaijan about its oil. The talks have involved not only new production. With their rickety old equipment, the existing oilfields' production is declining – last year it fell to 10.25m tonnes from 13.1m tonnes in 1989 – and western companies are being asked to re-equip them.

Eight Western companies have won shares of the proposed oil production contract. Besides BP, they are Amoco Production, McDermott International Inc., Pennzoil, Ramco Energy Ltd., Statoil, Turkish Petroleum and Unical.

Since moving in, the companies have invested $140m in bonuses, demonstration projects and charity, and most have opened plush, computer-lined offices in Baku.

The deal has seemed close to signing several times, but on each occasion has been held up because of the republic's political instability. Last June, two weeks before the then President Abulfaz Elchibey was to sign the deal in London, a military rebellion overthrew his government.

Then in November, Mr Aliyev, who criticised Mr Elchibey's version as insufficiently lucrative, came close to a new deal that raised Azerbaijan's percentage of proceeds from 70 per cent to 80 per cent and added $200m to a previously arranged $300m signing bonus. Ultimately, Azerbaijan was to receive $94bn in profit over 35 years, and the companies $24bn.

Mr Aliev, however, had second thoughts, and now may agree to a lower return over the long term if he can receive more in the first 10 years of production, according to an informed Western diplomat. Under the abandoned deal, the diplomat said, Azerbaijan's proceeds in the first decade would have been just 30 per cent, as the companies recovered their share of $7bn in projected development costs.

Meanwhile, with the talks idling, some of the companies have lowered their profile in Baku. BP, which in partnership with Norway's Statoil has the greatest exposure with a 36.7 percent stake, has reduced its Azerbaijan project staff from 80 to 30.

Diplomats and industry analysts say that Mr Aliev is not negotiating in bad faith. He is merely responding to increased pressures, they say.

Among them are the public's desperation for a favourable end to Azerbaijan's six-year undeclared war with Armenia, in which thousands of Azeris have died in the last two months alone.

There also is dissatisfaction with the republic's unremitting economic collapse, in which

A workers' boat at the terminal for Neftyani Kemni, a city built on stilts 4½ hours by boat into the Casian Sea from Baku. Constructed in the late 1940s it has 200km of roads and accommodates more than 4,000 workers

production has shrunk at least 40 per cent in just the last two years.

And there are Russia and the oil, issues that have seemed increasingly intertwined.

It is hard to see what pressure Mr Aliev thinks the US and European companies can exert on Moscow, but he clearly wants a minimum breathing space.

"Azerbaijan has no lobby in any Western country. But when the oil agreement is signed, it will have economic relations with these countries," and thus a voice there, said Ms. Leyla Yunusova, a former deputy defence minister and now a private military analyst.

For its part, Moscow wants a share in Azerbaijan's major oil projects, and abandonment of a $1.4bn proposal to divert oil shipments through a Turkish pipeline to the Mediterranean port of Ceyhan.

Russia wants Baku to continue shipping its oil to its Black Sea port of Novorossisk through an expanded or new pipeline. A new pipeline to Novorossisk would cost an estimated $2bn.

Mr Aliev already has awarded Russia's state-owned Lukoil company a minimum 10 per cent equity share of the estimated 3bn-barrel oil deal under negotiation with the BP-led group. He also has agreed to separate, joint development with Lukoil of the 1.4bn-barrel Gunashli offshore oilfield, which until October was supposed to be part of the Western-led venture.

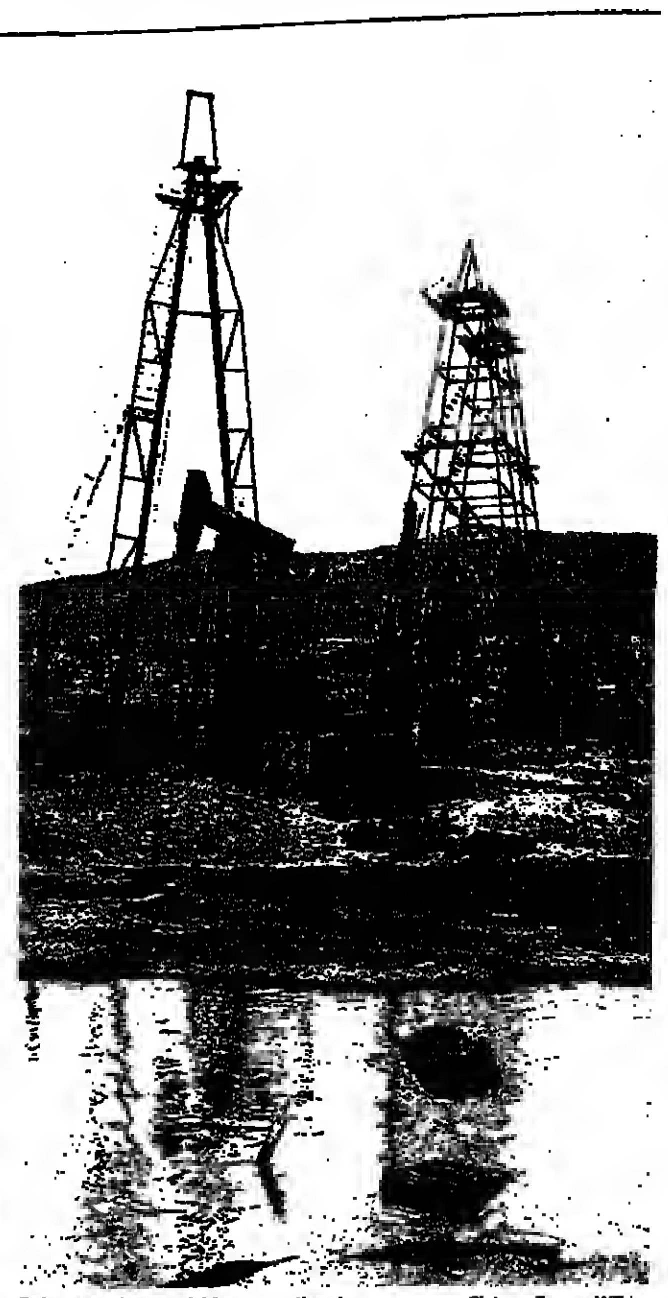
Moscow is not the only former Great Game player to be cut in on the deal late in the game. In 1992, Ankara's Turkish Petroleum was awarded a share. But its appetite was far smaller than Moscow's – just 2.5 per cent.

Now, Turkish government officials believe that Mr Aliev has also agreed to ship much or all of Azerbaijan's output to Novorossisk. If true, this would meet what ultimately is Moscow's most serious demand, since a continued monopoly on oil shipments would perpetuate Russia's stranglehold on Azerbaijan's means of economic independence.

Since there has been no announcement about the pipeline, most Western oil officials and diplomats continue to hope that the issue is still open.

Though Robert Nobel did ship his oil through Russia to Europe, using the Volga River-Baltic Sea route, Western oilmen these days mainly look south.

"The only way Novorossisk makes sense is if you have to choose it for political reasons to please Russia," said a Western oil official in Baku. "It's overwhelmingly the worst possible option. It's the most expensive, and you end up with the oil in the wrong place. We want it in the Mediterranean."



Baku oilfield: wasteful but operational Picture: Fergus Wilkie

Vitality and stagnation are the hall-mark of the post-Communist economy, writes Steve LeVine

Oil and bribery lubricate the wheels

Azerbaijan looks to oil as the mainspring of its economic future and of closer relations with the capitalist world.

In the meantime, its first post-Soviet governments have done little in the way of economic reform. However, this has not prevented the emergence of the liveliest trading climate on the southern fringe of the former Soviet Union, after Kazakhstan, the economic leader in the Caucasus and Central Asia.

The people of Baku have access to a wide range of products from processed foods to electrical appliances.

The influx has been generated by enterprising merchants who have made a fortune exporting relatively cheap Russian or local scrap iron, rare metals and other resources in exchange for consumer goods.

This activity has been vital in preventing Azerbaijan from slipping further into the economic swamp that has engulfed neighbouring Armenia and Georgia.

However, although it has kept the economy ticking over, this trading has not really altered Azerbaijan's general standard of living.

Over the last two years, the economy has contracted by 40 per cent and there has been

Foreign and local bank branches in Baku Picture: Fergus Wilkie

1,000 per cent annual inflation. Azeri economists complain that, while making their quick profits, businessmen have failed to start creating the fundamental infrastructure and industrial investment that the republic desperately needs.

"Instead of investing and waiting to earn profit after two years, they prefer to buy junk from Tajikistan or Russia, resell it to Turkey or Iran, and make a fortune," said Mr Bajram Mamed Rzajev, an official in the Ministry of Foreign Economic Relations. "It's easy to become a Rockefeller here."

Most Azerbaijan officials still think in Soviet economic terms, and President Heydar Aliev would face bureaucratic obstacles to market reforms. In any case, the economic reforms discussed by all six governments over the past two years have been paralysed by the six year-old war with Armenia.

A third of Azerbaijan's agricultural production – which accounts for 26 per cent of the economy – comes from areas caught up in the fighting. In addition, the conflict has also prevented Azerbaijan from being helped by international institutions such as the International Monetary Fund.

Baku's heavy industries have been badly hit by faltering deliveries of raw materials from other former Soviet states

Heavy industry, such as steel and oil equipment, has also been paralysed by the rupture of trade links with other ex-Soviet nations. The 14 oil equipment plants, for example, used to supply two-thirds of the Soviet Union's needs.

In January, Azerbaijan's industrial output fell by 11.3 per cent compared with a year earlier, due largely to lack of raw materials from other former Soviet republics.

In spite of these problems, Mr Aliev has given no priority to economic affairs. Senior positions in the taxation and foreign economic affairs ministries remain unfilled. "How can you leave these key ministries empty?" asked a senior western diplomat, interviewed in Baku. "These are vital to the economy."

There are many more complaints. Corruption is so common that western diplomats and businessmen judge officials not according to whether they take bribes but whether, having received them, they will still block necessary market reforms or licence applications.

Another key problem, seen in other ex-Soviet republics, is the banking sector. Although about 180 private banks are registered in Baku, corruption and the war in Nagorno-Karabakh have rendered them ineffective for the purposes of investment.

The banks' main function is to lend money to traders for a month so that they can buy and sell commodities at a steep profit and repay their loans at 100 per cent interest.

"I don't think anyone here is interested in investment in any industrial project. If they happen to be interested in long-term credit, it's probably for trade," said a senior western diplomat. "Since inflation is so high, traders are happy to pay 100 per cent interest. They would be willing to pay several times that to get credit."

The government has hard currency reserves, estimated at more than $300m. But it is not sure of their exact value because state enterprises are discouraged from repatriating their profits.

The government requires 85 per cent of hard currency earned from the sale of "strategic goods" to be surrendered to the state in exchange for the local currency, the manat. Almost 75 per cent of all traded goods fall into this category. When factories earn cash from exports, therefore, they often do their utmost to bank the proceeds abroad.

Mahmud Mamedov, a dentist during Soviet times, is one of Baku's wealthiest traders. He earned his first big money in the kind of rapid trading now practised by many new entrepreneurs in Baku. Mr Mamedov, who sports gold jewelry and a check sportsjacket, did so well that he now owns a bank, a television station, a newspaper and one of Baku's top two hotels, which he says he is refurbishing to international standards.

Mr Mamedov is scathing, sarcastic and somewhat patronising towards government bureaucrats who he believes are mishandling the economy. But he is a past master at dodging obstacles raised by the officials.

"You can't blame them. They lived for 70 years with the old system," he said. "The ministers are accustomed only to taking bribes. ... Until real businessmen come to power, I don't expect a real economic plan."

Steve LeVine on the conflict which has created 1m refugees

Stalin's map explodes

Exhausted Azeri front-line fighters take a brief rest Reuter

For six years Azerbaijan's politics and economy have been dominated by the fortunes of a war on an obscure battlefield in its western mountains.

Five Baku governments have fallen, more than a fifth of the republic's territory has been conquered by ethnic Armenian separatists and 1m Azeris have become refugees. But neither side is yet ready to compromise and peace seems distant.

Since coming to power eight months ago, the Azerbaijan president, Mr Heydar Aliev, has prosecuted the war more boldly than his predecessors in the hope of strengthening the republic's bargaining position. He has launched two major offensives, but both failed. The first was undermined by desertions, the latter by unsuccessful "human wave" tactics reminiscent of Iranian offensives in the 1980s war with Iraq.

As a result of these frustrations, the government has shrunk from radical reform, contenting itself with get-rich-quick foreign trade deals.

The war, one of the fiercest in the former Soviet Union, stems from the separatist aspirations of Armenian communities in the western region of Nagorno-Karabakh. Its seeds were sown by Josef Stalin in 1923 when, despite its majority Armenian population, Stalin made Nagorno-Karabakh part of Azerbaijan.

After simmering for many years, the issue exploded in 1988, when Nagorno-Karabakh's governing council voted to unite with the republic of Armenia.

Now the fighting engulfs much of western Azerbaijan. The Armenians control territory all the way to the Iranian border, and threaten to push north into Azerbaijan's third city, Ganja.

Mr Aliev, a former member of the ruling Soviet Communist Party politburo, appears to be politically secure but Azerbaijan has been so volatile since the collapse of the Soviet Union in 1991 that Western analysts say they do not know how long he will last. He himself came to power in a coup by Azerbaijan's disgraced former main battlefield commander in Nagorno-Karabakh.

Meanwhile, western-led peace efforts continue. The European Council for Security and Cooperation has resumed its so-called Minsk peace efforts with an official scheduled tour of Azerbaijan and Armenia this month. Last month, Russian defence minister Pavel Grachev persuaded both sides to accept a truce, and there were signs that Moscow could push for further negotiations.

But the situation is not hopeful. Unlike in Bosnia, where an international consensus has finally forced serious moves toward reconciliation, there is no solid Western pressure on the Nagorno-Karabakh combatants.

The majority Azeris simply want to see the ethnic Armenians withdraw from all captured territory, and make do with cultural antonomy for Nagorno-Karabakh. The Armenian separatists, however, demand the independence of Nagorno-Karabakh as the minimum condition for peace. They do not say what else they want, but their scorched earth tactics in captured Azeri towns suggests that they will also claim at least some of the additional territory now in their hands.

Mr Aliev has appealed for help from the US, Turkey and Iran, but so far seems to have gained little more than the dispatch of some military advisers.

Late last year, Mr Aliev sought what senior Western diplomats and Azeri analysts believe was a quid pro quo: in exchange for Moscow's military assistance, Mr Aliev agreed to Azerbaijan joining the Russia-dominated Commonwealth of Independent States.

He also awarded Russia a share in a Western-led oil deal to develop Azerbaijan's rich offshore fields.

But there is little sign of effective Russian help. With his army weakened by desertions, Mr Aliev sent an aide last August to Afghanistan to "borrow" some of that country's mujahideen rebels.

Azeris flee after Armenians cut roads trapping 15,000 civilians Reuter

More than 1,000 Afghans came to Azerbaijan and faced their first test in October, when Mr Aliev launched his first offensive. The surprise attack, in tbe southwestern Zangelan region near Iran, was spearheaded by the Afghans. They advanced s few kilometres, before they and the Azeris fled from an Armenian counterattack. The Armenians then promptly drove some 60,000 local Azeris from their homes.

Mr Aliev almost immediately began to prepare anotber attack. In November, thousands of young men were called up and given a few days of basic training.

On December 15, Azerbaijan attacked in several places, mostly in the southwest and in strategic Kelbajar, next to Armenia's border. The the ethnic Armenians were pushed back, but at the beginning of February they again resumed the upper hand. The Azeris have held the town of Horadiz on the Azerbaijan-Iranian border, but they have been ousted from Kelbajar and pushed over the important Morov mountains.

Armenians collect weapons from an abandoned Azeri outpost Reuter

A walk through Martyr's Cemetery on a Baku hillside sbows the result of Azerbaijan's new offensive. There are rows of shrines decorated with red, pink and white carnations and new concrete tablets attest to the daily funerals of fresh war victims.

Conservative Western estimates put Azerbaijan's dead in the latest offensive st 4,000 men, and Armenian losses in the hundreds. These are higher figures than for the previous two years of fighting. The sixth year of the war is estimated to have seen more tban 15,000 dead on both sides.

With the Armenian forces now controlling the Morov beights, Western analysts worry that Ganja, the site of a former major Soviet Army base, may be subject to rocket sttacks.

"You can't put together any real army here to fight the Armenians. There is a lack of determination in tbe people fighting, a disarray in the ranks," said a Western diplomat in Baku.

"This country is capable of gaining and bolding ground only temporarily. If the Armenians don't retake territory immediately, it is only for political reasons, not because they cannot."

John Lloyd and Steve LeVine study diplomacy and power politics on the Caspian Sea

Between Russia, Turkey and Asia

The basic pillars of Azerbaijani foreign policy are to balance its interests between Russia and Turkey in the first place; to increase its developing contacts with Western states, using the leverage of its Caspian Sea oil; to remain on good but not close relations with neighbouring Iran, where millions of Azeris also live; to continue membership of the Commonwealth of Independent States, and to develop, especially, better relations with the Central Asian states, which are, like Azerbaijan, moderately Moslem.

Tbese new objectives, expounded by President Heydar Aliev and Mr Vafa Culizade, bis adviser on foreign affairs, are meant to address two issues.

First and most urgently, they are seen as a way of achieving a ceasefire in the undeclared war with Armenia – a conflict that Armenia has in the last two years been winning. It is Azerbaijan's view that only Russia is capable of stopping the war – arguing that Moscow is making it possible for Armenia to fight.

Says Mr Gulizade: "Armenia receives 90 per cent of its supplies from Russia, and thus Russia could stop her in s minute. As soon as Russia threatens supplies, Armenia will negotiate."

A ceasefire has presently been arranged, under Russian auspices (by Gen. Pavel Grachev, the Russian defence minister). This tentative agreement is supposed to be followed by talks between Mr Aliev and Mr Levan Ter-Petrosian, the Armenian president, probably also in Moscow.

Mr Aliev, in an interview, was sceptical: "We have had so many ceasefires. In many of them, the Armenians used the time to again attack. I am not against the Russian initiative but our key demand is that the Armenians withdraw."

Russia is prepared to intervene in the war, but its price is a stake in the oil and military facilities

In invoking Russian aid to settle the war, Mr Aliev is, as be knows well, being drawn into s complex negotiation. Russia will settle the wars along its borders at a price. One is a share of a ricb Azerbaijani oil deal led by British Petroleum *(see article on oil)*, in addition to the right to establish new military installations.

When the latter question was put to Mr Aliev, be claimed, "The issue has not come up before me."

Mr Gulizade is a little more forthcoming: "In principle I'm not against it. The world in which we live is a world of realities. And in the real world, countries can lease bases in other countries. There is nothing against it."

Turkey, on the other hand – "a hrother country", as Mr Gulizade calls it – has less obvious political infinence but more of a goal to which Azerbaijan can strive.

In a February trip to Ankara, Mr Aliev won the important declaration from Turkey's leadership that he was a valued friend. This was vital because, since be was instrumental in the fall of Mr Abulfaz Elchibey, the previous president wbo was decidedly pro-Turkish, Mr Aliev needed to ensure that relations with Ankara were not too raw.

In addition, there is grave concern in Ankara abont Russia's ambitions in the largely Turkic, former Soviet republics of Azerbaijan and Central Asia. Ankara, which until recently was viewed as the west's bulwark in Central Asia and the Caucasus, believes with some cause that Russia is trying to bully its way into the region and push Turkey out.

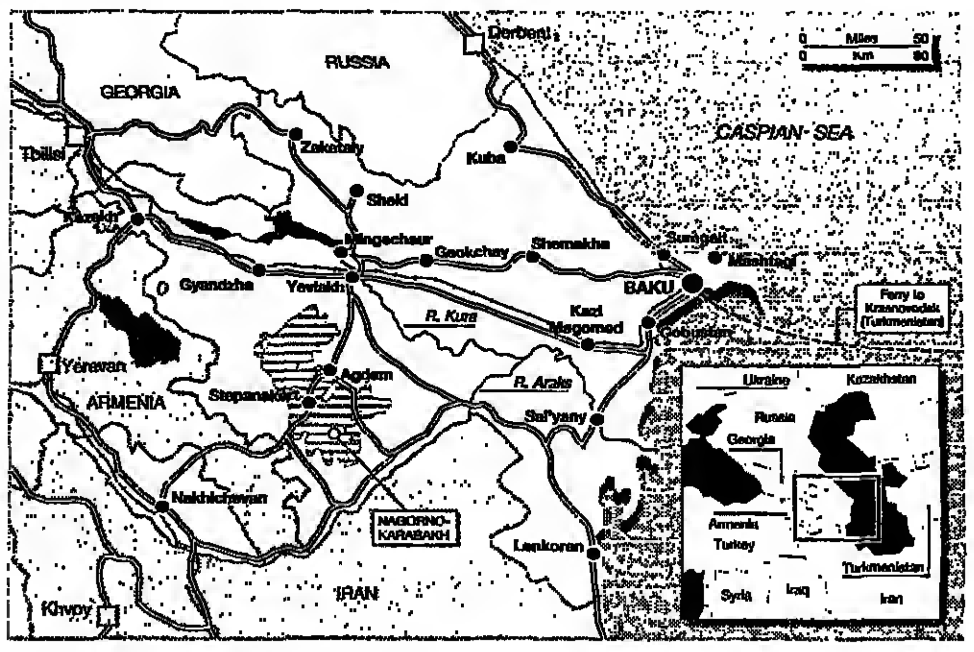
Azerbaijan's key politicians agree that much of tbe republic's future is dependent on bow Russia asserts its perceived rigbts in its "near abroad."

"If Russis's policy doesn't moderate, and the west doesn't become a balancing force in this region, we realise there is going to be a problem for Azerbaijan – for any government of Azerbaijan," said Mr Isa Gambar, leader of the opposition Mussawat political party.

The West is seen by Mr Aliev as "the natural direction of our policy". He says that "we share similar values – a belief in democracy, in the rule of law and in the market system. We must build the culture of these here and for that we will need assistance".

Tbe long-sought oil agreement is key to most of Azerhaijan's plans, both political and economic. The currently discussed $250m signing bonus from the BP-led western consortium would offer Mr Aliev immediate tools to improve his influence at bome and abroad. Domestically, he is still widely respected and bas a commanding presence, but he needs to start delivering tangible achievements.

On foreign policy, it has not gone unnoticed in Baku that tha huge oil contracts already signed in the neighbouring Caspian Sea state of Kazakhstan bave helped give its president, Mr Nursultan Nazarbaev, access to the highest power circles abroad. Mr Nazarbaev, for example, recently returned from a successful visit to Washington where he was granted almost $400m in assistance. Azerbaijan leaders hope the oil agreement will gain them similar western aid.



Together witb religion, energy is the main common bond between Azerbaijan and its neighbours across the Caspian Sea. The region's natural gas and oil wealth links energy inextricably with its political future. This makes a Central Asian-Azerbaijan alliance vital, particularly an increase in trade across tbe Caspian.

Thus far, however, Caucasia and Central Asia have had very differing political cultures. Conservative Central Asia was remarkahly free of anti-Soviet campaigns, unlike the Caucasus which saw widescale anti-Soviet protest movements.

Air traffic between Baku and Central Asia's key hnb, the Uzbekistan cspital of Tashkent, has been severed for more than a year. The breach began wben Azerbaijan allowed an Uzbek political opposition figure to stay in Baku after be was assaulted in Tashkent.

Azerbaijan leaders have tended to take a far more lenient posture toward political rivalry than have Central Asia's presidents.

This is part of Azerbaijan's paradox – its resources and political character could give it a smootb eventual transition into a country that can do business with a wide range of Asian and western nations. But its strategic location on the edge of the Moslem world and the former Soviet southern rim makes it a higbly tempting target for Russian ambitions.

CAN EUROPE COMPETE?

European market

A captive of recession and high expectations

The European single market still has much to prove, say David Marsh and Andrew Hill

The European market exists. The question is: Does it work? The single market, freeing movement of goods, services, capital and people across the EU, came into effect in January last year. It was extended this year to four Efta countries – Austria, Finland, Norway and Sweden.

Most countries in the newly-formed European Economic Area carry out 70 per cent of *their foreign trade with* the rest of the region – a very high level of integration.

For several reasons, however, the market has not met expectations. Companies criticise the bureaucratic intricacies of the new regime for collecting and monitoring value added tax, as well as continued technical barriers to trade.

The main reason for the sour reaction to the single market is that it has come into operation during deep recession. Low business confidence feeds on itself – helping explain why, according to last month's FT opinion poll, 77 per cent of European companies say they have registered no benefits from the single market.

Mr Bruce Ballantine, a BP executive on secondment to Unice, the European employers organisation, says the survey exaggerates disappointment with the 1993 programme. The "real effects" of the measures have been obscured by recession – but he admits: "Expectations were far too high."

The easing of constraints on distribution of goods has been undeniable. Around 70m customs documents used annually to monitor cross-border trade were abolished on January 1 1993, leading to a 3 per cent saving in time taken for moving goods around Europe.

However, the single market's main effect in boosting cross-border investment came in the years immediately after the project was launched in 1985. Since then, the investment effort – and its effect on growth – has petered out. Mr Ludolf von Wartenberg, general *manager of the Federation* of German Industry (BDI), says many German companies "anticipated" the single market by building up Europe-wide production and distribution networks during the late 1980s.

The Delors white paper on growth and competitiveness even suggests late 1980s single market optimism, by contributing to economic overheating, may have added to the severity of the subsequent recession.

At the European Commission, some officials show frustration at criticism of the single market. They admit the programme has been a victim of its own advance publicity. An optimistic Commission report in 1988 predicted it would add 4.5 per cent to Europe's gross *national* product in the medium term.

Brussels officials now claim the programme has added an average annual 0.4 percentage point to growth since 1985.

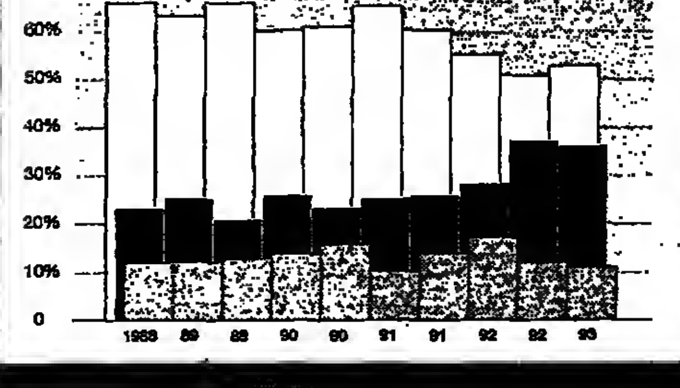
But the single market programme is incomplete. The main areas where the Commission wants to fill the gaps are:

- Abolition of passport controls. Checks were supposed to end on January 1 last year, but even the most federally-minded EU members have not met deadlines for ending them.
- Implementation and enforcement of proposals and legislation. Some 95 per cent of the original 282 proposals have now been agreed by member states, and 87 per cent of the relevant measures have been transferred into national law.
- Removal of technical barriers. Niggling regulations still hamper cross-border trade, particularly for smaller businesses.
- *Liberalisation* of "closed" sectors. Important sectors such as energy, telecommunications and postal services were left out of the original 1985 programme. Proposals to introduce more competition here have made slow progress.
- Enforcement of procure*ment legislation. The Commis*sion wants to enforce rules opening public authority and utility contracts to free competition.

Meanwhile, the Commission is resigned to criticism. Without more evidence of how the project is working, one senior official says it will be difficult for Brussels to strike a balance between "misguided complacency and an exaggerated view of the problems".

Single market optimism fades as wage differentials widen...

Single market prospects: proportion of EU citizens showing...



World manufacturing labour costs

1993 ($ per hour)

W.Germany	24.9	Singapore	5.1
E.Germany (former)	17.3	S.Korea	4.9
Japan	16.9	Hong Kong	4.2
US	16.4	Hungary	1.8
France	16.3	Czech & Slovak Republics	1.1
UK	12.4	China	0.5

...and lower cost regions' investment attractiveness grows

Ernst & Young's guide to the most favourable regions for corporate investment in Europe

The UK, Ireland and eastern Europe top a list of attractive business locations in Europe, according to three sets of case studies, based on requirements for companies seeking a production base in various sectors.

Full details available from David Rees, Ernst & Young, Becket House, 1 Lambeth Palace Road, London SE1 7HU. Fax 071-928 1345

KEY TO RATING: ★★★★★Excellent ★★★★Good ★★★Moderate ★★Poor ★Does not match criteria

International motor components manufacturer

Main considerations: Short delivery time to main manufacturers. Production costs, together with available grants and incentives, also important.
Prime candidates: UK's West and East Midlands, N.E. England, Poland, Belgium (Limburg), Czech republic, Alsace in France and Piedmont in *northern Italy top the list, with higher-cost areas like southern Germany less well rated.*
Other candidates: Aragon and Valencia regions in Spain – close to new motor manufacturing facilities.

	POLAND	UK (W. MIDLANDS)	FRANCE (ALSACE)	CZECH REPUBLIC	ITALY (PIEDMONT)	WEST GERMANY
Proximity to markets	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Grants and incentives	★★★★*	★★★	★★★*	★	★	★
Labour availability	★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★
Low production costs	★★★★★	★★★★	★★★	★★★★	★★★	★★

*If located in areas of structural unemployment

Japanese compact disc maker

Main considerations: Requires leading-edge technology, substantial investment, low costs, high-skilled engineers. Workforce must be flexible and susceptible to training. Company will want to maximise capital grants and incentives. English language environment may be preferred.
Prime candidates: Wales and Scotland top list. Ireland has low costs and flexibility, suffers from distance from markets. Bavaria in W.Germany has strong electronics industry, but is "far from cost competitive". Pioneering companies might consider projects in central and eastern Europe.

	SCOTLAND	IRELAND	CENTRAL EUROPE	SPAIN (CATALONIA)	SOUTH GERMANY	EAST GERMANY
Low production costs	★★★★	★★★★	★★★★★	★★★★	★	★★★★
Labour flexibility	★★★★★	★★★★★	★★★	★★★	★★★★	★★
Labour regulations	★★★★★	★★★★★	★★★	★★★	★★	★★
Skilled labour	★★★★	★★★★	★★★★	★★★★	★★★★★	★★
Grants and incentives	★★★★	★★★★★	★★★	★★★	★	★★★★
Language	★★★★★	★★★★★	★★★	★★	★★★	★★
Proximity to markets	★★★	★★	★★★	★★★	★★★★★	★★★

California biotechnology company

Main considerations: Links to an established scientific community, attractive location, suitable schools, cultural and sports facilities. Leading executives prefer a "sunbelt" site.
Prime candidates: "Ideal location" could be a science park in southern France such as Sophia Antipolis, near Nice. Southern Germany and *Switzerland also attractive. The new European Medicines Agency, to be based in the UK, could be a "major pull factor". A company looking for well-*trained scientists at low cost may consider the ex-Soviet Union - but this is now more dubious because of political risk.

	SOUTH OF FRANCE	UK (CAMBRIDGE)	GERMANY (MUNICH)	SWITZ. (LAUSANNE)	DENMARK	RUSSIA (MOSCOW)
Links to markets	★★★★	★★★★	★★★★	★★★	★★★	★★
Links to scientific community	★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★★
"Sunbelt" location	★★★★★	★	★★	★★	★	★
Attractive location for staff	★★★★	★★★★	★★★	★★★★	★★★	★
Cost factors	★★★	★★★★	★★	★★	★★★	★★

Sources: European Commission Eurobarometer survey, Morgan Stanley, DRI

State aids refuse to die

Subsidies

By Hugo Dixon

Ask Mr Karel Van Miert, the European competition commissioner, what he is doing to improve the competitiveness of the European economy and he gives two answers: cracking down on illegal state subsidies and liberalising sectors that have traditionally been state-owned monopolies.

This may seem odd. After all, the European steel industry is now convulsed by a row over *the Commission's decision* to sanction Ecu7bn in aid to several inefficient state-owned groups. There is also disquiet at the slow pace of Commission plans for liberalising sectors such as energy and telecommunications.

By comparison with the mid-1980s, there has been progress in reducing both state aid and the incidence of monopolies. Mr Van Miert and his two predecessors, Sir Leon Brittan and Mr Peter Sutherland, have taken s fairly tough line.

But many sectors of the European economy are still burdened by state aid and monopolies. Government handouts to inefficient companies not only wsste taxpayers' money; subsidies also distort competition by placing more efficient enterprises at a disadvantage. That is currently the danger in both the steel and *the airline sectors.*

Likewise, persistent monopolies in utility industries mean European businesses pay more than they need for telecommunications, energy, air transport and postal services. More competition would drive down costs and spur the development of trans-European networks which could act as the infrastructural backbone of the single market.

The Commission has not moved more sggressively because curbing aid and opening markets often involve job losses. It fears a political backlash which could undermine its authority. "OK, you could make it a war. But at the end of the day, what interests me is results," says Mr Van Miert.

The Commission has had some successes. It has become more insistent that subsidies be allowed only if they are part *of s viable restructuring plan.* And the Commission has encouraged member states to prepare aided companies for privatisation.

So far, though, the fall in the overall volume of hand-outs has been small. It averaged Ecu89bn a year between 1988 and 1990, down from an average Ecu92bn in the previous three years – a drop to 2 per cent of GDP from 2.2 per cent.

Equally, progress on liberalisation has been patchy. Data communications services have been opened to competition, but ordinary voice telephone services will *remain* monopolies in most countries until 1998 or later.

Air transport is being progressively liberalised. But national flag-carriers still typically monopolise take-off and landing slots at airports.

The view that even slow *progress* on *curbing* state *aid* and monopolies will enhance Europe's competitiveness is not necessarily accurate. Other regions of the world are also weaning their industries off subsidies and liberalising monopolies.

'National champions' become obsolete

Cross-border deals

By Geoffrey Owen

In 1967 two important structural changes took place in the UK motor industry – the formation of Ford of Europe, and the merger of Leyland and British Motor Holdings to create British Leyland. The first, uniting Ford's British and German subsidiaries, was designed to achieve Europe-wide economies of scale. The second was a national affair: it did nothing to remedy one of the industry's most serious competitive weaknesses: lack of marketing presence in continental Europe.

The subsequent 25 years have underlined the wisdom of Ford's approach and the sterility of the "national champion" *strategy. As barriers* to intra-European trade and investment have come down, companies in many industries have had to follow Ford's example; those that left the transition to Europe too late, such as most British Leyland companies, have paid the penalty in dwindling market share.

In the early 1970s, before and after the UK's accession to the Community, British companies *were unfamiliar with* continental systems and management practices, yet felt the need for a big leap forward to take advantage of the enlarged market. The result was a series of ill-judged mergers and joint ventures – the Dunlop-Pirelli partnership was an example – which failed to produce economies and led to some disillusionment with Europe. Today a European strategy is not an adventure; it is an accepted part of doing business.

As Ford recognised in the 1960s, integration came quickest in sectors like cars, where customer needs were sufficiently uniform to justify a continental approach to design and manufacture. This, in turn, has encouraged the lead*ing component suppliers,* such as Valeo in France, GKN and T&N in Britain, to build or acquire factories throughout Europe to serve vehicle assemblers. Pilkington's moves into Germany and more recently Italy are part of this trend.

Progress has been slower in traditionally protected sectors like electric power and telecommunications. But even here nationally based procurement is giving way to open competition, providing a further stimulus to cross-border alliances, such as GEC-Alsthom and Siemens's stake in the British telecommunications equipment industry.

Nationalism, of course, is not dead, as is clear from the angry reaction in Britain to BMW's proposed takeover of Rover. No doubt the tendency for European countries to try to look after their own will persist. It was, after all, one of Germany's national champions, Siemens, which took over the loss-making Nixdorf computer group; one of Germany's largest lame ducks, AEG, went to Daimler-Benz and not to Britain's GEC, which came close to buying parts of the business in the early 1980s. In steel, local political pressures still impede structural change, although another sector plagued by over-capacity, petrochemicals, has been reshaped through asset swaps and divestitures, many involving cross-border transactions.

No doubt, too, European *mergers and acquisitions will* continue to be complicated by differences in management style and shareholder expectations. But where the underlying commercial logic is sound, these cultural and organisational strains are usually manageable. How much further will European rationalisation go? In the motor industry it seems unlikely the present structure, with six high-volume producers each holding about 11-15 per cent of the market, will survive the removal of restrictions on Japanese imports; the trend towards higher concentration, which has already eliminated most smaller players, will probably go further in the next decade.

But whether all Europe's *manufacturing* industries will move in an American direction is more doubtful. Even if all artificial barriers are dismantled, differences in consumer tastes between Italy and Britain will remain greater than, say, between California and New Jersey. Hotpoint, the British domestic appliance maker, has been successful without embracing a fully European strategy; national markets can still provide the basis for healthy profits. Not all national markets will go regional, nor will all regional markets become global.

What matters is that strategies can now be based on normal commercial criteria, with fewer distortions arising from government intervention or conflicting national regulations. While European integration is not complete, the focus of management attention may be shifting. In some industries the ability to compete in the US and, perhaps more important, in the Asia-Pacific region is *increasingly crucial to profit*able growth. Companies such as Renault and Peugeot, whose business is based almost entirely on west Europe, could be vulnerable if they fail to break out of Europe. Just as the 1980s saw a shift from national champions, so in the 1990s being a Euro-champion may no longer be enough.

The author is a director of the Centre for Economic Performance of the London School of Economics

Leading cross-border takeovers in Europe

Target	Country	Acquired by	Country	Price ($bn)	Year
Elsevier	Netherlands	Reed International	UK	9.27	1992-93
Midland Bank	UK	HK and Shanghai Bank	Hong Kong	7.37	1992
Groupe AG	Belgium	AMEV	Netherlands	4.55	1990
Rowntree	UK	Nestlé	Switzerland	4.4	1988
Minol Mineralölhandel	Germany	Elf/Thyssen/SB Kauf	France/Ger	3.74	1992
Plessey	UK	GEC Siemens	UK/Germany	3.24	1989
Source Perrier	France	Nestlé/Indosuez	Switz/France	2.71	1992
STC	UK	Northern Telecom	Canada	2.64	1990-91

Source: IFR Securities Data/KPMG/FT Library

Eastern springboard for western manufacturing

Investment in east

By David Marsh, Nicholas Denton and Patrick Blum

For companies doing business across Europe, the former members of the communist bloc have become vital elements in the *international economic* equation.

Since the Berlin Wall fell in late 1989, western companies have made about $9bn of capital investments in Hungary, Poland, the Czech republic and Slovakia, the four most developed economies of central and eastern Europe. The OECD says the lion's share has gone to Hungary, with roughly $5.5bn invested there so far.

About 60 per cent of this investment has been geared to serving local markets, according to estimates by the European Bank for Reconstruction and Development. But large companies are increasingly using their eastern manufacturing bases as springboards for exports to the west.

For the moment, central and eastern European exports to the west are very limited. According to the latest *data, for 1992, the four countries' sales* to the EU made up only 1.4 per cent of EU members' overall imports.

Despite agreement last summer to improve eastern Europe's access to EU markets, exports are still being held up by barriers in areas such as steel, chemical and textiles. But in view of the region's low labour costs and increasingly modern production fscilities, eastern Europe could become an important source for the *west of goods* such as consumer products and manufacturing components.

Mr Niall FitzGerald, director in charge of worldwide detergents operations at Unilever, the Anglo-Dutch consumer products group, points to the particular attractions of Poland – where the company is investing heavily in raising produc*tion of detergents and edible oils and* fats. "With investment in new technology and relatively low labour costs, its industrial operations are potentially more competitive than those in the west." Unilever is starting to service the Czech and Slovak markets with Polish-made detergents, and eventually could sell to Russia and western Europe, he says.

But some plans to source foreign markets from eastern Europe have *soured. Volkswagen has cut planned* investment in Czech carmaker Skoda from DM7.1bn to DM3.7bn. VW had wanted to sell a third of its production on the Czech and Slovak markets, a third to other eastern European countries, and a third to western Europe. But recession and protective tariffs in Poland have upset plans.

In Hungary, several companies aim to build up sales to western markets. In buying Hungarian light bulb producer Tungsram for $550m, General Electric of the US acquired both a competitive production base and an established 7 per cent share of west European lighting sales. According to Mr Jack Welch, GE chairman: "In the European manufacturing sense, Hungary will be our principal base." GE says wage costs in Hungary are only a *third or a quarter of levels* in the UK, where it is closing lighting plants.

Another company increasing Hungarian production is Oesterreichische Kabelwerke, an Austrian subsidiary of Germany's Siemens. After gaining a majority stake in Magyar Kabel Muvek, it plans to shift much of its cable production to Hungary.

Audi, part of VW, starts *production* of engine components this summer at its DM300m plant in north-west Hungary. All production is to be exported to the Audi assembly plant in Ingolsladt, Germany. Audi says Hungary had s 15 per cent cost advantage over other shortlisted sites in Austria and eastern Germany – an indication of the ground companies in the west must try to make up.

Challenge from the periphery

CASE STUDY: GM

A Hungarian auto plant that sets quality standards for the west

David Marsh reports

Szentgotthárd in western Hungary is a strategic crossing point for the flux of products, capital and ideas streaming across the widening European market.

This unprepossessing town close to the Austrian border was sealed off before 1989 by the cold war insignia of barbed wire and watch towers. Now it is a test-bed for western manufacturing techniques. In a $250m plant in the shell of a communist-built farm equipment factory, General Motors has been assembling cars and *engines since 1992.*

GM has profited from a five-year tax holiday and a $25m Hungarian investment grant. Other motor groups with footholds in Hungary include Suzuki, Ford and Audi. By setting new standards for low-cost prodnction with up-to-date technology, such investments are helping spur the cross-border rationalisation and cost-cutting that are potent realities of the European market.

Mr Ernst *Hofmann,* the moustachioed 63-year-old managing director of General Motors Hungary, describes how GM has designated Szentgotthárd-produced engines as a quality benchmark throughout the group. Mr Hofmann – a veteran production specialist from GM's Opel *subsidiary* in Germany – praises the "100 per cent flexibility" of his 480-strong Hungarian workforce. Productivity and quality are at least as high as in comparable west European plants, he says.

The Hungarian factory has a bearing on GM's larger plants in western Europe. "We are competition for decision-making in the west." At the equivalent of DM300 a month, workers at the factory earn one-eighth of the pay of those in GM's west German car plants.

The GM assembly plant this year should produce about 11,000 Astra Opel hatchback cars and 140,000 engines, assembled from knock-down kits from west Germany.

Labour accounts for less than 10 per cent of total costs, with *materials* making up 80 per cent. The share of local Hungarian production is about 10 per cent. Mr Hofmann believes this could eventually rise to 30 per cent as Hungarian component producers increase production.

Last year, the plant exported 3,500 cars out of its 13,400 *production* – an uneconomic exercise at present, in view of the high cost of transporting components to Hungary.

At least until 1996, the car plant is likely to operate at below its 15,000 per year capacity. By contrast, the engine plant is planned by end-1994 to be operating at full capacity of 200,000 engines per year.

By introducing an extra shift, Mr Hofmann reckons Szentgotthárd's capacity could be doubled with little extra investment. The importance of this plant and others like it in eastern Europe is far greater than their small size. West European car-makers will have to fight hard to beat the east European challenge.

■ This is the eighth part of a 10-part series.
Tomorrow: Ageing Europe.
An 80-page paperback containing all the articles in this series will be available later this month, at a price of £20 per copy. Cheques should be made payable to Financial Times Ltd and sent to John White, Marketing Department, Financial Times, 1 Southwark Bridge, London SE1 9HL.

THE MONDAY People page

The making of a media mogul

Bernard Simon meets **David Radler**, the deal-making partner and confidant of tycoon Conrad Black

Jeff Wasserman

All Conrad Black's deals, from his first foray into newspapers in rural Quebec 25 years ago to his purchase last week of the Chicago Sun-Times, have had one thing to common. They would not have happened without David Radler.

Officially, Radler ie president and chief operating officer of Hollinger, Black's Canadian bolding company. In reality, he *is* Black'a closest business confidant, his chief deal-maker and, when necessary, his hatchet man. He keeps a much lower profile than Black. However, Black, who spends most of his time these daya in London, seldom makes an important move without consulting Radler in faraway Vancouver.

Radler sits on the boards of Hollinger's two flagship investments – the UK Telegraph group and Southam, Canada'e biggest newspaper chain. It was Radler, not Blsck, who touched down in Chicago to announce Hollinger'e investment in the Sun-Times, the US'e ninth biggest newspaper, and it is Radler who will take over as chairman of the Sun-Times Company.

Adding to his clout, Radler has e minority stake in Ravelston Corp, the private company which controls Hollinger. The only other sizeable Ravelston shareholders are Black and Peter White, another long-time friend and business associate, whom Radler had met during a Quebec election campaign in the late 1960s. Radler was working for the finance minister, who had earlier been a waiter in Radler's father's restaurant.

With the Sun-Times investment, Hollinger's world is unfolding much as Radler predicted in 1992 when he and Black were unsuccessfully pursuing the New York Daily News.

The international media industry will centre on 15-20 heavyweights, he said at the time, "and we want to be one of them. I wish we could determine where we're going to be, but we're going to be wherever the opportunities are."

Radler, 51, is almost the complete antithesis of Black. "Conrad and David have an ideal partnership," says Martin Maleska, a Naw York investmant banker who advised Hollinger on the Sun-Times deal. "I find it amazing that they complement each other so well."

Black, urbane and sociable, is a product of the stuffy Anglo-Canadian establishment, and is at home in the company of (preferably conservative) statesmen, aristocrats and intellectuals.

By contrast, Radler is a scrappy Jewish Montrealer, who won his business spurs in the family restaurant and his own shop selling native handicrafts at Expo 67 in Montreal. He moved to the west coast in the early 1970s when the three partners bought a small paper in Prince Rupert, British Columbia.

He still works from cramped offices in an unpretentious Vancouver residential neighbourhood, a sharp contrast to the opulence of Black's bases at Canary Wharf in London and the elegant turn-of-the-century post office which houses Hollinger's Toronto offices.

The two men work together more as partners than as *chief* executive and chief operating officer. Although they consult frequently by phone, each has carved out a primary sphere of influence. Black concentrates on the Telegraph and on Fairfax Holdings, Australia's second-biggest newspaper chain of which the Telegraph has 24 per cent.

Radler spends most of his time looking after Hollinger's North American interests which, until the Sun-Times purchase, consisted mainly of about 300 small-town newspapers in the US and Canada, as well as the 8.3 per cent stake in Southam. He is also chairman of the Jerusalem Post, which Hollinger bought in 1988.

Radler's interest in newspapers was aroused in his boyhood by a Time magazine cover story on US publisher Si Newhouse. The cover showed newsprint going in one side of a machine and dollar bills coming out the other. "I said 'This can't be a bad business'," Radler recalled.

His admirers praise him for his efficiency and tenacity. According to Maleska, "he has a very keen understanding of how businesses operate at the most mundane level". Others are less flattering, however. One long-time associate, who asked not to be identified, described Radler as "difficult". Even Black, in his recently-published antobiography, mentioned his friend's "fanatical determination".

In particular, Radler has a reputation as a fearless cost-cutter. Black recalls in his book that when a reporter at the Sherbrooke Record in Quebec, their first newspaper, marched into Radler's office to present a petition of grievances, Radler deducted two cents from the man's weekly pey cheque for wasting a sheet of paper.

"I don't think I'm any worse or any better than anyone else in the business," Radler says. "If I can see that an operation can be run by two people, and we have six, I want it run by two."

Radler has applied this philosophy to justify the relatively high prices which Hollinger has paid over the past eight years for many of its 280 rural US papers, most of them formerly family-owned. As a result, many papers in neighbouring towns now share printing presses, advertising departments and even news-gathering resources.

The $180m Sun-Times deal is in a different league. The purchase fulfils Black'e and Radler'e ambition to add a North American metropolitan paper to their stable. Radler says that he and Black first looked at the Chicago paper more than two and a half years. The Sun-Times, which has a daily circulation of 535,000 and Sunday sales of about 524,000, propels Hollinger into the top ten US newspaper publishers.

Although the Sun-Times plays second fiddle to the Chicago Tribune, Radler says it is profitable and "has loyal readers and advertisers". The tabloid is best-known for its fearless coverage of Chicago's rambunctious political scene.

True to form, Radler insists that there is "a potential for improving operating margins" at the Sun-Times – in particular, Hollinger plans to modernise its technology. The paper's previons owners, comprising institutional investors and senior managers, have been hobbled by the heavy debt-service burden incurred through a leveraged buy-out from Rupert Murdoch in 1989.

The Sun-Times' 1,550 employees may get an early taste of the Radler style. The paper's labour contracts come up for renewal later this year. Radler says: "They've absolutely nothing to fear. I'm not going to set a new policy because we're in control." But it would be out of character if he did not push hard for concessions. As he says: "We'll seek a better deal for management, and labour will do the same for themselves".

Personae . . .

Libyan Saudi resigns in Bahrain

Arab Banking Corporation is sifting with some urgency through possible candidates to assume the presidency of the Bahrain-based bank after the resignation of Abdulla Saudi, writes **Mark Nicholson**.

In a statement, ABC said Saudi was leaving "owing to external circumstances" and that his departure was "necessary to protect shareholders' interests and safeguard the bank's future". All of which is apparently code for Saudi's chief problem: his Libyan nationality.

Senior bankers in Kuwait say the primary reason for Saudi's departure is that his Libyan nationality had led to fears among ABC's chief shareholders – notably the United Arab Emirates and Kuwait which, with Libya, hold about a quarter of the bank each – that the US might decide to freeze the bank'e assets under sanctions against Libya for its alleged role in the Lockerbie bombing in 1988.

In February, a two-month freeze of the assets in the US of Arab Financial Services, a Bahrain-based credit card and travellers cheque company which Saudi (right) also chairs, was lifted only after intensive lobbying by the Bahraini authorities.

ABC apparently felt Saudi should step aside to avoid any further such problems. He will do so after May 1 and Gulf bankers say it could be as big a blow to ABC as to Saudi himself – though he could not he reached to comment on his future.

Saudi was ABC's founding president in 1980 and has crafted it ever since – raising it from a straightforward Offshore Banking Unit in Bahrain to an international group embracing operations in Hong Kong, Spain, London and, increasingly, across the Arab World. His retail banking experience in Spain led him to acquire Banco Atlantico, the Spanish retailer.

For now, Khalifa al-Muhairy, an ABC board member, will chair a committee to take over the running of the bank until a permanent replacement for Saudi is found. Well informed

gossips in Kuwait say Abdulla al-Qbandi, former head of the Kuwait Investment Authority, is among the favourites.

Yassukovich picks up from Cragnotti

Stanislas Yassukovich, once upon a time a big name in the Euromarkets, has become chairman of a oew trading vehicle, Park Place Capital, formed via a management buy-out of Cominvest UK from the Cragnotti & Partners Capital Investment Group, writes **Katharine Campbell**.

Cragnotti has decided to withdraw from financial services, and the formation of Park Place Capital represeots the first in a series of disposals.

Yassukovich's involvemeot with Sergio Cragnotti has been nothing if not eveotful. The Italian financier brought in Yassukovich in 1991 to run the London end of his newly created Cragnotti & Partners Capital Investment Group. A former chairman of the Securities Association, Yassukovich was supposed to lend the venture credibility.

The original idea of drumming up cross-border M&A business quickly fell through. "Cragnotti was such an active acquiror of businesses on its own behalf that it produced too many conflicts to have a parallel agency operation," Yassukovich explains. Called a merchant bank in Italy, Cragnotti'e *raison d'être* is the acquisition and development of consumer product companies.

The M&A business gone, that left, in London, an arbitrage team, hired from Banque Nationale de Paris, which has, according to Yassukovich, done well. Essentially a "very equity-oriented" hedge fund, it focuses on the Continent.

But then came Cragnotti's own problems towards the end of last year. A former Ferruzzi executive, he gave himself up to police in Italy for questioning at around the same time as he came to a settlement regarding allegations of violations of Canadian securities law. This "accelerated the group's decision to pull out of financial services" is how Yassukovich puts it.

Yassukovich, 59, remains vice-chairman of the Cragnotti group – but why, particularly seeing he is not exactly short of directors' fees? He sits, in various capacities, on at least ten other boards.

"I have no doubts about [Cragnotti's] integrity; he is a very skilled industrialist. Unless you are Italian, it is very difficult to follow the incredible complexities of what is going on in that country," says Yassukovich. "I'm also a very loyal chap," he adds, almost as an afterthought.

Double act of Japan's UK diplomats

A formidable diplomatic double act is about to take the centre stage at Japan's UK embassy, writes **William Dawkins**.

Hiroaki Fujii, 60, will take over as the new ambassador on March 17, joined by his long-standing junior colleague, Sadaaki Numata, as minister plenipotentiary, the embassy's number two, 51 on that day.

The pair have shared offices on and off several times since 1975, when Fujii became Numata's boss at the foreign ministry's north American division. They were together in the late 1970s in Japan's Washingtoo embassy and then turned np again back in Tokyo's north American divisioo in the mid-1980s.

Fujii later became ambassador to Thailand, his most recent job. The new ambassador has never lived in London, so he will be a newcomer to his posting – similarly, his friend Sir John Boyd, Britain's ambassador to Japan since mid-1992, had also never lived in Tokyo.

However, Fujii will not be completely in the fog in London, since Numata is a self-confessed Anglophile. Oxford-educated, he worked in the UK embassy for two years in the late 1960s. A useful skill is his ability to put some of the finer nuances of Japan's foreign policy into plain English.

MANAGEMENT

Richard Donkin finds a local council inspired by the private sector

Town hall basics

The announcement 10 years ago that Courtaulds was closing its Braintree textile operations came as a bitter blow to local people. The problem was not just the disappearance of the Essex town's largest employer, leaving 5,000 workers on the dole. The prospect of them finding new jobs was also severely limited by the then concentration of government aid packages on apparently more deserving regions such as the Midlands and the North.

That crisis, however, proved to be the early inspiration for a management revolotion at the local council which has since become a model for other local authorities in the UK.

The then newly appointed chief executive of Braintree District Council, Charles Daybell, decided that to attract investment the anthority would have to concentrate on customer service. As the current assistant chief executive Robert Atkins explains today: "You don't know when meeting a person at reception whether they will be complaining about their washing or whether they might have 2,000 jobs in their pocket."

Since setting off down this path in the mid-1980s, Braintree has developed a corporate culture drawn from best practice in the private sector which appears to permeate every part of its organisation. As such it belies the still potent image of UK local government firmly rooted in the bureaucratic town hall atmosphere of post-war Britain when gentlemen with waistcoats and fob watches inspected holes in the road and had a form for everything.

On the surface, Braintree (population 120,000) appears to have a council not much different from others with modern, brick-built administrative offices at the edge of a tidy Essex town. It is the behaviour of the staff – and the way they deal with people – which has encouraged a steady stream of public-sector managers to beat a path to Braintree's door.

"Like many authorities if we had any terminology for the people we served it was ratepayers, residents, clieots," says Annie Ralph, the current chief executive. "Now we have customers and what they think and say is paramount," she adds.

People are not only referred to as customers; they are encouraged to complain and told how to complain if they feel services fall below par. The complaints service, which includes a review procedure, is comprehensive and allows the involvement of chief officers and councillors.

Staff are trained how to deal with peopls and how to respond to telephone calls, while concepts such as quality assurance have been taken to heart. All 70 services in the authority have been accredited to the British Standard 5750 on quality.

Reading the mission statement and the set of core values, emblazoned like commandmants on almost every wall of the headquarters, there is a suspicion that Braintree has had an attack of corporate fadism, an urge to run local services like a McDonald's hamburger bar.

But, while its culture does borrow ideas such as TQM and draws on practices developed by organisations such as Marks and Spencer, the authority has attempted to be pragmatic in its application of management and personnel practices.

When it decided to look at car parking arrangements, for example, it asked local residents what sort of car park they wanted. "They said they wanted a hut with an attendant so they got one," says Atkins.

Services, meanwhile, are backed by undertakings. The guarantee on emptying dustbins includes a promise to come back and collect rubbish from a missed bin the same day if the council is contacted by noon or the next working day if the call is in the afternoon. "We know we can meet such a promise because research has shown us we are likely to miss no more than 200 bins from the 47,500 pick-ups," explains Atkins.

One of the biggest impacts has been in industrial relations which has all the appearance of a rare union and management love-in. John Reeve, the GMB, general union convenor, said: "I was a shop steward for about 18 years and probably one of the most militant people here. I think it was the authority that made me militant because they didn't understand us."

Today, by contrast, his union file is empty and meetings are overdue. "There hasn't been anything to discuss, to be honest," he said.

An important catalyst, he believes, was the introductioo of compulsory competitive tendering five years ago. "We were already working towards a hetter understanding but I think the realisation that both staff and management needed each other or both would be out of work, was a strong influence."

Customer orientation, however, has been at the centre of the changes. in additioo to the framing of five core values, the authority decided to invest heavily in staff training, devoting a higher than average percentage of the payroll. It harmonised the workforce – et a cost of £25,000 – so that all staff were given the same terms and conditions.

Political stability in the administration has enabled polices to be introduced with all-party support. The council has been continually hung for the past 10 years.

Wider recognition of its achievements came last year when Braintree was nominated as UK representetive for the Carl Bertelsmann Prize, a German-based international award for good management in public services. The 1993 prize, focused on public efficiency and democracy in local government, was shared hy Phoenix, Arizona and Christchurch, New Zealand, with Braintree among the runners up.

"The council managed to effect a close working relationship between elected members and officials without in any way subverting the political control of the authority," Michael Clark, former chief executive of the local government management board and a member of the nominating panel, says.

"The basic theme of what it's about has percolated down through the institution and into the community at large. People have respect for it. Despite the high-flown stuff they have actually managed to keep their eye oo the basics and they do the basics very well."

It doesn't have to end in tears

Japanese alliances are about more than just business. **Michiyo Nakamoto and Christopher Lorenz** explain

Japanese industry reacted with disbelief when the news broke a month ago that Germany's BMW had stolen Rover, the last British-owned car maker of any size, from under the nose of its long-standing partner, Honda. How could a western ally be so unreliable? How could Rover – and especially its perfidions parent, British Aerospace – fail so blatantly to respect the Japanese commitment to long-term relationships? Did they not realise thet the affair would damage other Anglo-Japanese business links?

It has since become evident that Honda will be harmed less severely than was at first feared. As the dust settles, the Japanese business community is starting to reflect more calmly on the significance of the affair for other alliances.

People are now more prepared to raise questions on several counts: whether Honda was sensible to follow with Rover a strategy of "control without takeover" which has been common for decades within Japan; whether the company should have had a better-prepared "exit strategy" in case the Rover alliance broke down, either suddenly or gradually; whether the Japanese really do always believe that such relationships should be long-term; and whether, paradoxically, alliances involving equity participation are less likely to last than weaker types of link.

Corporate collaboratioo is not takeo lightly in Japan. When two companies overcome their mutual apprehension and decide to do a deal, it is often expected to be a long-term affair that involves more than cold-blooded business decisions.

As such, Japanese companies will frequently find value in an alliance that is not obvious from a purely business point of view. Even if there are no immediate advantages in a particular link, they are often quite happy to make it as a symbolic gesture or for some vague future benefit.

NEC, for example, says its stake in Bull, the loss-making French computer company, offers benefits in its computers and telecommunications businesses and an entry into the French market. But the company, which recently invested a further Y7bn (£44.58m) to maintain its stake at 4.43 per cent although IBM refused to do likewise, says there were also "some emotional reasons" behind that decision. These include the need to help a partner in trouble.

This does not mean that Japanese companies expect alliances to last forever. They are not averse to ending one that has outlived its usefulness. "When the mutual benefit disappears," says one manager at a Japanese electronics company, "then in principle, the relationship should be terminated."

'If you are going to tie up with another company, there is always the risk that what you put in will be wasted'

It is therefore seen as general practice – in Japan as in the west – to have a pre-planned exit strategy in any kind of alliance, whether it be a joint venture or one involving equity participation. "When the stake involved is less than 50 per cent, we will include an exit strategy [in the contract]," says Koichiro Yasuda, manager of the corporate advisory division of the Long-Term Credit Bank of Japan, which consults for many of its corporate clients.

"If you are going to tie up with another company, there is always the risk that what you put in will be wasted," he notes.

It is unclear whether Honda had a prepared exit strategy. But the aspect of British Aerospace's action over Rover which most unsettled Japanese minds was that it chose BMW, a new suitor, over a long-term partner simply because the German company made a better financial offer.

"There are hardly any cases in Japan of owners cashing out, so the main point for both sides is whether the two companies can be integrated," Yasuda points out. "Price is a secondary consideration."

That sensitivity towards cultural integration plays an important part in Japanese thinking on acquisitions, whether they are cross-border or otherwise.

Past experience of takeover problems, plus their current shortage of funds, has turned Japanese companies increasingly to strategic alliances as a means of getting what they want from another company.

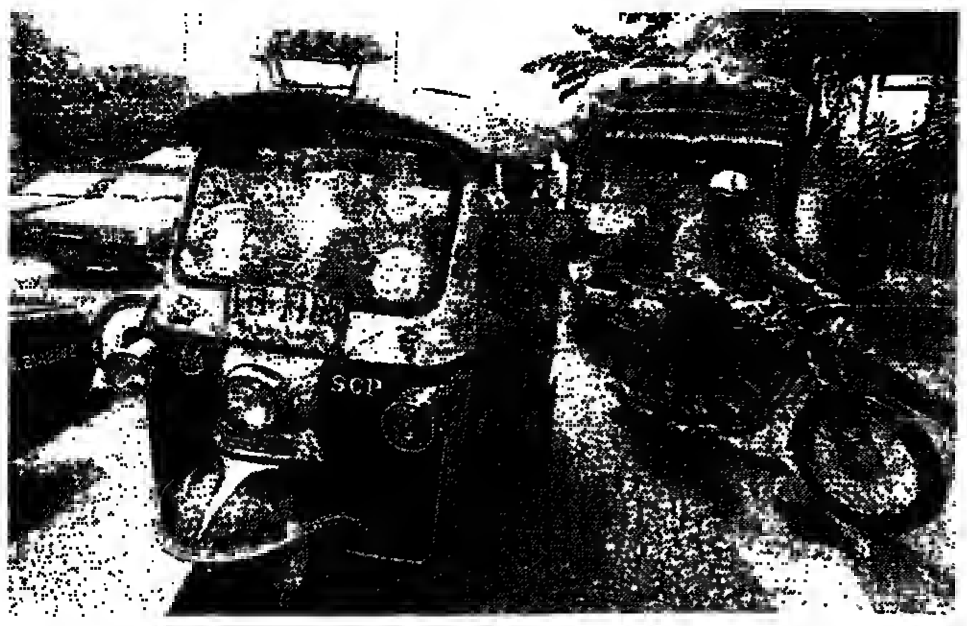
This preference is likely to grow. As industries become more global, it is important bnt virtually impossible for one company to have a full presence in all the important geographic regions, says Yasuo Tsuchiya, general manager of the business strategy department at Mitsubishi Research Institute.

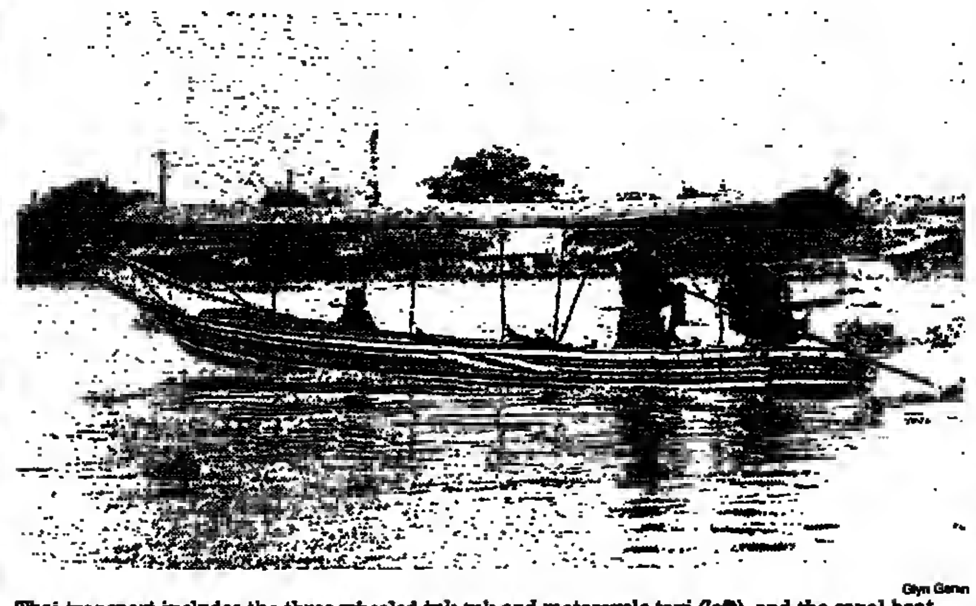
At the same time, many companies are finding that the most effective, and least troublesome, strategic relationships are narrowly defined. "Alliances will from now on be on a smaller, more focused basis," Tsuchiya asserts. "They will be looser, more like networks." Such relationships also make for an easier exit.

When a Japanese company does take a stake in its western partner, it faces a choice over bow to operate. The traditional way is described by James Abbeglen, an American consultant who has worked to Japan for 40 years, as "takeover without takeover": the stronger company takes the lead, and the weaker becomes, in effect, its dependent supplier. Abbeglen says this is how Honda was starting to treat Rover.

One top Japanese manager with considerable experience of dealing with western companies describes this as an "old-style" way of seeing an alliance, and not a model of how to give it long life; he calls it "fundamentally flawed". He sees Fujitsu's handling of its UK computer subsidiary, ICL, as more enlightened, and more of a partnership.

BUSINESS TRAVEL





Glyn Genin

Thai transport includes the three-wheeled tuk-tuk and motorcycle taxi (left), and the canal boat

Track through the traffic

Victor Mallet explains how to get around and do deals in Bangkok

In any other city, the sight of a sweating businessman in a pinstriped suit perched on the pillion seat of a small, noisy motorcycle, clutching his briefcase and mobile telephone while the driver weaves between lines of cars and buses, might be considered unusual.

Not so in Bangkok, where the notorious traffic congestion has made the lethal motorcycle taxi a routine form of commuter transport for secretaries, government officials and foreigners alike.

Traffic jams inevitably feature in any assessment of the problems confronting visitors to the Thai capital, but it is worth putting Bangkok's bad reputation in perspective.

For a start, it is a big city, comparable in size with London, and is home to several times the population of Kuala Lumpur or Singapore. Nor is it the only Asian metropolis with traffic problems: Manila, Jakarta and even Kuala Lumpur are also suffering from the surge in car ownership that accompanies economic growth.

Occasional floods in the June-October rainy season can cause city-wide gridlocks lasting several hours, but few journeys within Bangkok during the daytime should take more than an hour. Here are some tips on how to beat the traffic:

- Be flexible about your means of transport. A taxi is often the best solution, but it might be quicker to get out and walk 200 yards than to wait for the taxi to crawl round a one-way street system for half an hour to drop you at the door.

Occasionally, you will find it quicker to go between two points by river taxi or canal boat, but make sure you know where you are going, because few of the operators speak English.

My own view is that motorcycle taxis should be a last resort when you are late for an appointment with the prime minister. Otherwise, they are for the brave and those who do not mind being asphyxiated by exhaust fumes.

For foreigners, the three-wheel *tuk-tuk* is usually as expensive as a taxi, and much less comfortable. There is no metropolitan railway system. From the airport to town, most international business travellers take the Thai Airways limousines for 500 baht (£13.30).

- Be certain about your destination. Thai street addresses can be baffling, so your contact will often send you a map by fax with the name of the place written in Thai; such maps should be shown to the driver.

Taxis with meters are now cheap and easily found. But if you can afford it, a chauffeured car from your hotel is even better; the driver is more likely to be familiar with your destination and to speak some English.

- Choose a hotel near to where your meetings are to be held. Instead of a single city centre, Bangkok has several business districts and another area embracing most of the government ministries.
- Take your work with you in the car, or a newspaper or book to while away the time. If possible take a mobile telephone as well (a hotel limousine may provide this), so that you can contact people if you are going to be late.

Having reached your meeting, you now have to do your business – interesting and potentially profitable, but not always easy.

Unless you are a fluent Thai speaker, it is essential that you have a first-class interpreter. Some senior Thai government officials and business executives speak excellent English, but English is inevitably much less widespread than in former British or American colonies such as Singapore and the Philippines.

One example of the pitfalls involved in undertaking large projects in Thailand is the so-called Second Stage Expressway, a $1bn elevated toll road built by a consortium led by Kumagai Gumi of Japan. KG and some of the foreign banks that helped finance the deal believe the Thai government has flouted the contract and effectively nationalised the road. They are now trying to get their money back and extricate themselves from the project. Part of the dispute centres on the wording of the contract.

One weary foreign businessman once told me that a signed contract in Thailand was regarded as no more than a starting point for further negotiations, but do not believe everything you hear about the Asian way of doing business. (In the provinces it is not unusual for Thai tycoons to be gunned down by hit-men on the orders of their rivals.)

Be direct in your letters and discussions, explaining what you have to offer and what you want from the other party, but do not expect an immediate yes-or-no response. In a country where the economy is growing at about 8 per cent a year, your contacts, whether from the public or private sector, are likely to be busy.

Office meetings tend to be formal. Suits and ties are worn; such clothes are extraordinarily unsuitable for the steamy Bangkok climate, but local businessmen move from air-conditioned house to air-conditioned Mercedes to air-conditioned office and rarely breathe the hot, poisonous air outside.

Any good guide book will give you advice on how to be polite in Thailand, although one foreign businessman, asked about business etiquette, pointed at his cheque book and said: "It's usually made out to cash." Matters of bribery and corruption – sorry, consultancy fees and special payments – for everything, from customs clearance to winning contracts, are best handled by your local partners.

For all its pollution and physical ugliness, Bangkok's saving grace is that it is a lively, cosmopolitan city. Hotels and restaurants are excellent, and you can enjoy a $1 Thai snack from a roadside stall as much as a $50 meal in a five-star hotel.

Given a free weekend, you can explore the many sights of Bangkok or make an excursion by road to the beach at Hua Hin, the "Death Railway" between Thailand and Burma, built on the River Kwai by prisoners of the Japanese during the second world war, the old capital of Ayutthaya or the Khao Yai national park.

There are regular flights to the islands of Samui and Phuket and to the northern capital, Chiang Mai. This once peaceful town is now being called "another Bangkok"; not, alas, with any affection, but because its traffic jams have started to emulate those of the capital.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	14	19	19	13	13
Hong Kong	27	27	25	25	26
London	15	15	14	10	10
Frankfurt	13	14	15	13	10
New York	8	7	3	1	-3
L. Angeles	19	21	22	22	21
Milan	16	18	17	17	16
Paris	13	15	16	14	12
Zürich	12	14	16	15	12

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

Another Italian shake-up

Italy's state-run railways have set out to attract commuters and other frequent users with a shake-up in the ticket system, writes John Simkins in Milan.

The effect of the regulations, which came into force on March 1, is that travellers who buy nine consecutive monthly passes for journeys up to 250km will receive a further three free of charge. If the traveller makes a one-off payment for the nine passes, four more are gratis.

The innovation comes alongside a 3 per cent average increase in prices which still leaves Italian fares well below the average European level. A railways spokeswoman said that measures to reward customer loyalty were aimed at increasing the railways' share of traffic from the present 12 per cent to 20 per cent within the next few years. She said that a bigger increase in fares was unlikely until there was a widespread network of high-speed trains. Currently high-speed trains run only between Rome and Florence.

Under the new ticketing system, return tickets have been scrapped. Books of tickets are now available, giving a 10 per cent reduction for at least four journeys of more than 70km to any destination, and a 20 per cent reduction for journeys exceeding 350km. Discounts on return tickets have also been scrapped. Books of tickets are now available, giving a 10 per cent reduction for at least four journeys during one month of more than 70km to any destination, and a 20 per cent cut for journeys longer than 350km.

Egyptian fear

Extremists are continuing their campaign of violence, mainly in the area of Assiut in Upper Egypt, but also in Cairo and occasionally elsewhere. In February, they explicitly threatened to attack tourism, foreign investments and banks. There have been several attacks on tourist targets. Over the past two years, terrorist attacks have caused the deaths of seven foreigners.

The authorities are giving the highest priority to protecting visitors: more than 250,000 Britons visited Egypt in 1993 without experiencing any security difficulty. But complete security cannot be guaranteed and further incidents are to be expected.

Visitors should not travel to or through the Assiut area. They should be vigilant and are reminded to behave and dress discreetly.

Vat reclaims

European Union governments are holding up to billions of pounds of unclaimed value added tax refunds because bureaucratic obstacles deter UK businesses from claiming them, according to a City-based consultancy set up to process claims. The European Vat reclaim bureau says about 25 per cent of most business travel budgets could be reclaimed by the June 30 deadline.

Massage class

Japan Airlines' new automatic massage seat will be installed in the first-class cabins of four of the carrier's B747-400 aircraft from April. One JAL Sky Massage seat will be available in each first-class cabin on flights to Tokyo from London and New York.

Developed by JAL in co-operation with the Marutaka, a Japanese medical equipment manufacturer, and Koito Kogyo, a Japanese seat manufacturer, the new Sky Massage seat can provide three different styles of massage. First-class passengers may use the Sky Massage seat free of charge for each 15-minute programme or they may programme their own customised course. The seat cannot be used at take-off, landing or during meal service.

Architecture/Colin Amery

Essence of domesticity

Looking at architecture today, the most satisfactory new buildings are those tbat achieve a symbiosis hetween contemporary innovation and tradition. It was probably alwaya tbat way. When Michelangelo converted the buildings on the Campidoglio in Rome, he was hringing an innovative classicism to a traditional civic space. There are some architects who can do this today, but they are few and far between and often the object of ridicule from a dogmatic profession that only wants to promote hard-line modernism.

It is worth looking back to the recent past when there were many architects, working in and around the arts and crafts movement, who successfully and enjoyahly combined a sense of tradition with inventiveness. One of the very best, and one who has been somewhst neglected by critics and acholars, is Charles Voysey. Known as C.F.A. Voysey (1857-1941), be designed interiors and furniture as well as buildings and his work is the subject of an important small exhibltion at the Design Museum.

Voysey's designs in many ways make him a man for the 1990s

Anyone who has worked with an architect in a domestic setting knows how rare it is to find one interested in furniture or accomplished in the field of interior design. The rise of the professional decorator in this century has been helped to no small degree by the contempt so many architects have sbown to colour, decoration and interior design.

Voysey's exceptional vision of the composite whole has never had quite the recognition given to designers like Pugin, Morris and Mackintosh. This exhibition is a success for two reasons. It is small and well chosen and it is as much about the man as his work.

Voysey's life was unconventional. His clergyman father was dismissed from the Anglican church for teaching questionable doctrine and went on to set up his own Theistic Cburch, which developed a substantial middle class following. Charles Voysey, in his work and in his private life, inherited his father's strong sense of individuality. He was no follower and his very best works – the series of important bouses built mainly in the 1880s – still appear today as highly original and immediately recognisable as "pure Voysey".

His style achieved an essence of domesticity that influenced the development of English house design st all levels. Because he believed that art affected all aspects of life he developed a belief in simplicity of design and a limited palette of materials that brought a huge draught of air into the stuffiness of Victorian England. His work is undoubtedly revolutionary – unpolished oak, whitewash, hrass fittings, and a decorative treatment of materials and wallpaper thst is almost innocent in its naive contrivance.

To have lived in one of Voysey's houses like Broadleys on Lake Windermere in the Lake District or in The Orchard, Chorley Wood must have been like sleeping every night in fresh linen sheets. The sense of light, cleanliness and uncluttered life is truly refreshing to body and soul. But Voysey was not without fantasy or sentiment as his designs for furniture, materials and silverware clearly show. The painted clock with its domed top, (you can huy a replica at the Design Museum), is itself s microcosm of Voysey's clean world where birds sing all day and there is an unreal sense of purity.

By all accounts Voysey was not an easy man to work with and his rigidity of character lost him many friends. But he is one of those architects and designers that has to be taken on his own terms. He offers a tough but hrilliant vision.

Everything he designed, and take a close look at the circular silver toast rack in the exhibition, is thought through from the inside out. That is what makes good design. This approach, combined with an understanding of the vernacular and the landscape, where he carefully placed his bouses, produced a aense of simple elegance and progressive creation that is full of valuable lassons for us today. He was also economical.

By paring things down to a minimum and, for example, not polishing oak or brass, he made his houses look entirely natural with no sense of the extravagant. In many ways he is a man for the 1990s – his sense of the calm home is what we need in an economic climate that has made us value our houses as homes and not just as inflationary investments. A visit to "Heart and Home" is both timely and aesthetically instructive.

As Sir Edwin Lutyens said of him: "No detail was too small for Voysey's volatile hrain, and It was not so much his originality, though original he was, as his consistency which proved such a source of delight."

C.F.A. Voysey: Heart and Home, until April 24 at the Design Museum, Shad Thames, London, SE1 (071-407-6261). Sponsored by British Home Stores.

Charles Voysey (inset) breathed air into the stuffiness of Victorian England: his house Broadleys on Lake Windermere reflects his belief in simplicity of design

Opera/Richard Fairman

Tenderness on a dark road

On Friday, for his 65tb birthday, Bernard Haitink spent the evening conducting a new production of *Kátya Kabanová* at his artistic bome, the Royal Opera. For several reasons It was an inspired choice, not least because Janáček himself was the same age in 1920, when he started work on what was arguably to be his greatest operatic achievement.

In this short opera he distilled a life's understanding of men and women – especially women. By and large the female sex has not been a central interest of the major 20th-century opera composers and even Strauss with his colourful gallery of female portraits generally sees women from the male point of view. Janáček is the exception: even as he was composing *Kátya Kabanová* he noted that people accused him of writing nothing but "female operas".

Of all his heroines, none calls for our sympathy more polgnantly than poor, adulterous Kátya. A dreamer desperate to escape an unsatisfactory marriage, she finds herself at first trapped, then vilified and finally outcast by a closed, rural community tbat is not prepared to understand or forgive. No woman is better drawn in modern opera and it is the job of the producer to put her case across.

A good pointer to a production's intentions ls how it relates Kátya to the countryside around her on the banks of the Volga. In Scottish Opera's recent production it became e wintry landscape in front of a cyclorama of drifting clouds; in Vienna in the 1970s it was a flat marshland, featureless, unending. For the Royal Opera's production, designed by Maria Bjornson, Trevor Nunn has tried something different: a long, dark road that swirls down into a bottomless gloom.

It is never quite clear whether Nunn intends this to be a naturalistic view of the opera or one that is symbolic. His picture of peasant life in the backwaters of 19th-century Russia features real horses pulling carts and real rain pouring down in the thunderstorm, yet the winding road remains an ominous presence throughout. There are no indoor scenes at all, not even the family bome to act as Kátya's prison.

The visual prospect may sound bleak, but it is warmed by the human qualities of the characters as Nunn sees them. When Kátya stands in the centre of his vortex of a set, she looks a helpless young soul, unable to resisl the forces dragging her down. Elena Prokina plays her simply and naturally. There is not much sense of the frustration ready to explode from within, but Prokina is very affecting and sings the music extremely well.

In this production no caricatures are allowed. Eva Randová barely hints that Kabanicha can be a dragon of s mother-in-law. She underplays the role, doing it the hard way, and shows how devastating a subtle exterior to this tyrant of a woman can be. It is a shame that her scene with Gwynne Howell's shambling Dikoy (a relationship that often smacks of masochism) goes for so little. The lack of an interior is a drawback there, as elsewhere.

For Kátya to be caught between two weak men makes her tragedy the more poignant

Kim Begley's put-upon hushand seemed stronger than usual, not a whining ninny; Keith Olsen's Boris, cleanly and confidently sung, was conversely a frightened rabbit before the lovers' tryst. For Kátya to be caught between two weak men only makes her tragedy the more polgnant. Monica Groop's Varvara and Christopher Ventris's burly Kudrjáš were an unaffected couple, not coy as can happen.

At Glyndebourne a couple of years back the opera worked at a high level of intensity. Haitink's Janáček is not like that. He takes his time, making sure that the orchestra is kept low so that the singers can play in an atmospbere of quiet, conversational intimacy. In the end there is not enough tension, but for its infinite tenderness and human sympathy Haitlnk's performance could bardly be more moving. In that respect the 65-year-old Janáček has found a meeting of minds.

Sponsored by The Friends of Covent Garden and the Royal Opera Trust. Performances continne until March 25.

Sponsorship/Antony Thorncroft

Starting a search for positive returns

Arts sponsorship was late into the recession and seems to be late coming out of it. The growth in expenditure in the early 1990s created the illusion that companies were so in thrall to the arts that there would be no downturn. It has now arrived, especially in London and the southeast. The main casualties are corporate membership schemes: companies that habitually signed up as friends of the Tate, the Royal Academy, Covent Garden, the Royal Shakeapeare Company, Glyndebourne and so on are now selective, hitting the income of arts organisations hard.

Also patronage is out; demonstrative advantage in. New sponsors tend to be hard-nosed and practical, seeking a positive return. Often they are keen to use the arts to boost contacts, as the following sponsorships suggest.

*

The arts event of the year to date has undoubtedly been the Picasso exhibition at the Tate Gallery. It is clocking up around 4,000 visitors a day and is on target to be the most popular show ever held there.

This is good news for Ernst & Young, the consultancy firm, which snatched the sponsorship from under the noses of Toshiba and a Spanish bank. It is Ernst & Young's first major involvement in the arts and It is paying a hefty price – approaching £300,000 down, and a further £200,000 or so in marketing and hospitality.

A recent arrival among the larger consultancy firms, Ernst & Young decided arts sponsorship matched its potential client profile and thought the Picasso exhibition had an appropriate ambiance, familiar but slightly avant-garde.

It has three targets. It wants to entertain, and is bolding an incredible 30 evening receptions at the show; it wants to build up loyalty among its own staff of 7,000, who get free tickets; and It wants to raise its profile.

One bonus is that the BBC is also backing the show, with 13 programmes devoted to Picasso; Ernst & Young gets a mention in ten of them. First indications are that the 400 partners who ultimately fund the sponsorship through their earnings will be happy enough to stick with the arts.

*

Another new sponsor evaluating its involvement is Capital House, the investment management subsidiary of the Royal Bank of Scotland, which has backed the current exhibition of drawings by Holbein from the Royal Collection at the National Portrait Gallery.

Capital House has a narrow target audience and John Ellwood, the company's corporate affairs director, saw corporate advertising and sports sponsorship as expensive and wasteful. Music had appeal, but art seemed to offer the best environment to get the Capital House message across.

Based in Edinburgh with a budget of £100,000, Ellwood first approached the Scottish Arts Council but received no joy. He had never heard of ABSA in Scotland. Finally he rang the National Galleries of Scotland and discovered the gallery wanted to put on a show to commemorate the 450th anniversary of Holbein's death. The Fitzwilliam in Cambridge and the NPG were keen to take the drawings. Capital House money made it possible, in return for the usual perks: company name on the catalogue and publicity material, plus private views and corporate entertainment.

As a first-time sponsor Capital House qualified for a £25,000 sweetener under the Business Sponsorship Incentive Scheme; but company costs rose again to £100,000 when the champagne for the bospitality evenings was included. But the final amount contrasts favourably with the cost of media advertising, and Ellwood believes the company profile has been raised.

*

The Edinburgh Festival goes from strength to strength. It has just raised £1m in sponsorship for the 1994 Festival, a 15 per cent increase over last year. With the Festival Theatre coming into operation, raising the seat capacity by 25 per cent, it was essential to reach the £1m target.

New sponsors include Scottish Widows and two firms of solicitors, Fyfe Ireland and Maclay Murray & Spens, while there was increased funding from Royal Bank of Scotland, Bank of Scotland, Famous Grouse, IBM and Scottish & Newcastle. The sponsorship money will be more important than ever if Edinburgh Council cuts back on lts grant, as seems possible.

*

Swiss-based Alexandra Trading and Investment is using the arts to ease its way into the UK market. It has invested over £50,000 in the two concerts given by Kiri te Kanawa at the Hampton Court Festival and will use them to entertain prospective clients.

*

The Prudential is changing its arts awards, the most generous in the UK with £100,000 for the winning arts company. It has responded to criticsm that too much money went on the gala dinner and has switched the next ceremony, in January 1995, to the National Theatre. The hudget remains £800,000 and the money saved has been devoted to a new prize-winning category: film.

INTERNATIONAL ARTS GUIDE

■ BERLIN

OPERA/DANCE

Staatsoper unter den Linden Daniel Barenboim conducts Harry Kupfer's production of *Die Walküre* on Wed and Sun. with cast headed by Deborah Polaski, Nancy Gustafson, Siegfried Jerusalem and Falk Struckmann. Repertory also includes Tosca with Suzanne Murphy and Gösta Winbergh (200 4762/2035 4494)

Deutsche Oper Bryn Terfel gives s song recital on Wed. Repertory includes Don Giovanni, Il trovatore and a Stravinsky production with choreographies by Béjart and Balanchine (341 0249)

CONCERTS

Schauspielhaus Vladimir Ashkenazy conducts Berlin Radio Symphony Orchestra in tonight's programma of symphonies by Schumann and Dvorak. On Wed, Warsaw National Philharmonic Orchestra plays works by Brahms and *Shostakovich under* Kazimierz Kord. Michel Dalberto plays Ravel's Piano Concerto with Berlin Symphony Orchestra on Sat, Sun and next Mon (2090 2156)

Philharmonie Georg Solti conducts the next two weeks of Berlin Philharmonic concerts. Tomorrow, Wed, Thurs: Shostakovich's Ninth Symphony and Tchaikovsky's Sixth. Next Tues and Wed: Beethoven's Missa Solemnis. Tha orchestra then moves to Salzburg for the Easter Festival (2548 8132)

THEATRE

● *A new production of Helner* Müllar's 1981 play Quartett, based on Les Liaisons Dangereuses, opens at Berliner Ensembls on Fri (282 3160)

● Andreas Kriegenburg directs Brecht's The Good Person of Sechuan at Volksbühne am Rosa-Luxemburg-Platz, opening on Sat (282 3394)

● Peter Handks's wordless theatre *piece, Die Stunde da wir nichts* voneinander wussten, is in its final week at Schaubühne, in a production by Luc Bondy which will be seen at this summer's Edinburgh Festival (890023)

■ NEW YORK

THEATRE

● Angels in America: Tony *Kushner's epic two-part drama* conjures a vision of America at the edge of disaster. Part one is Millenium Approaches, part two Perestroika, played on separate evenings (Walter Kerr, 219 West 48th St, 239 6200)

● Four Dogs and a Bone: John Patrick Shanley'a comedy about movie-making and power plays in Hollywood was one of off-Broadway's biggest hits last autumn (Lucilia Lortel, 121 Christopher St, 924 8782)

● Blown Sideways Through Life: Claudia Shear's 65th joh is performing this *hit monologue* about tha previous 64 - everything from waiting tables to answering phones in s bordello. A funny and moving evening (Cherry Lane, 38 Commerce St, 989 2285

● Pounding Nails into tha Floor with My Forehead: Eric Bogosian's monologue on life in the 1990s *mows down all the sacred cows* of political correctness. A scathing, scatalogical, exhilarating rant (Minetta Lane, 18 Minetta Lane east of Sixth Ave, 307 4100)

● Escape from Paradise: s one-woman show written and performed by Regina Taylor, about s black magazine editor who, one day, instead of going to work went to Italy. Final week (Circle Repertory *Company*, 99 Seventh Ave S., 924 7100)

● Laughter on the 23rd Floor: Neil Simon's 27th Broadway play, about a group of writers trying to coma up with a new show, is one of his finest comic efforts. Directed by Jerry Zaks (Richard Rodgers, 226 West 46th St, 307 4100)

OPERA/DANCE

Metropolitan Opera Highlights of *this month's programme ars Adriana* Lecouvreur with Mirella Freni (till March 26) and Stiffello with Placido Domingo (final performances Wed and Sat). Domingo also stars in a new production of Otello opening March 21. Repertory includes Poulenc's Dialogues des Carmelites with Dawn Upshaw and Teresa Stratas, La fille du régiment with Harolyn Blackwell and Il barbiera di Siviglia with Susanne Mentzer and Vladimir Chernov (362 6000)

State Theater Dance Theatre of Harlem celebrates its 25th anniversary with a two-week residency March 11-27. Old favourites like Firebird are back along with last year's hit A Song for Dead Warriors, plus revivals of Ron Cunningham's Etosha and popular offerings by choreographers Billy Wilson, Glen Tetley, Michael Smuin and Alvin Ailey (870 5570)

City Center Merce Cunningham Dance Company opens a two-week engagement tomorrow (581 1212)

CONCERTS

Carnegie Hall Tonight: Maurizio Pollini piano recital. Tomorrow and Thurs: Semyon Bychkov conducts Orchestre da Paris in two programmes, comprising Berio's Sinfonia, Berlioz's Symphonis fantastique and the Fifth Symphonies of Beethoven and Shostakovich. Fri: New York Pops (247 7800)

Avery Fisher Hall Tonight: Leonard Slatkin conducts New York Philharmonic Orchestra in works by Piston, Ravel and Rakhmaninov, with piano soloist Alicia da Larrocha. Thurs, Fri afternoon, Sat: Herbert Blomstedt conducts Chopin and Nielsen, with piano soloist Bella Davidovich. Fri: Leon Botstein *conducts American Symphony* Orchestra in a programme entitled An Italian Journey through German Romantic Painting and Music. Sun afternoon: Charles Dutoit conducts Orchestre National de France in Berlioz, Beethoven and Roussel, with violin soloist Shlomo Mintz. Sun evening: Christopher Hogwood conducts Academy of Ancient Music in Vivaldi and Telemann (875 5030)

JAZZ/CABARET

Down Beat Ruth Brown begins an engagement tomorrow. Taking her cues from gospel and swing, Brown has a lithe, intuitive styla of R&B singing that has grown richer and more authoritativa over the years (101 Seventh Ave South, 620 4000)

Blue Note Tito Pusnta's Golden Latin Jazz All-Stars begin an engagement tomorrow (131 West 3rd St, 475 8592)

Carlyle Hotel Eartha Kitt is in her final week before setting off on a European tour (Madison Ave at 76th St, 744 1600)

Michael's Pub Singer Vsmel Bagneris begins an open-ended run tomorrow. Woody Allen continues his night joh as clarinet player in a Dixieland-jazz ensemble on Mondays (211 East 55th St, 758 2272)

Rainbow & Stars Susannah McCorkla takes her audience on a jazz-inflected stroll through the last 70 years of American popular song (30 Rockefeller Plaza, 632 5000)

■ PARIS

DANCE/OPERA

Palais Garnier Ballet de l'Opéra de Paris presents the world premiere of *three new ballets* by *Roland Petit* on Wed, with nina further performances till March 22. The company's young dancers can be seen in a programme of extracts from ballets by Boumonville, Vinogradov, Dolin and others on Sat and Sun afternoon and next Mon evening (4742 5371)

Châtelet Tonight'a performance is the first of five of Dia Frau ohne Schatten, in a staging by Andreas Homoki first seen at Geneva in 1992. Christoph von Dohnanyi conducts the Philharmonia Orchestra and a cast headed by Sabine Hass, Jean-Philippe Lafont, Thomas Moser, Luana DeVol and Anja Silja (4028 2840)

Opéra Bastille Tonight's performance is the last of the current run of Salome, with Karen Huffstodt, Leonie Rysanek and Monte Pederson. Carmen is revived tomorrow with a cast led by Marta Senn, Daniel Galvez-Vallejo and William Shimell, conducted by Serge Baudo (till March 21). Final performances of Bob Wilson's production of Dis Zauberflöte are on Wed and Fri. Janice Watson gives a song recital tonight in tha Studio (4473 1300)

CONCERTS

Théâtre des Champs-Elysées Tonight: Andras Schiff piano recital. Tomorrow: Jean-Claude Casadesus conducts Orchestre National de Lille in works by Debussy and Ravel, with vocal soloists including François Le Roux. Sun morning: Frank Peter Zimmermann violin recital (4952 5050)

Théâtre de la Ville Fri, Sat: Gustav Leonhardt and Barthold Kuijken play music for harpsichord and flute (4274 2277)

JAZZ/CABARET

George Porter Junior, king of New Orleans funk, opena a two-week engagement tonight at Lionel Hampton Jazz Club. Music from 10.30pm to 2am (Hotel Meridien Parla Etolia, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

THEATRE

● Three Sisters: Matthias Langhoff directs a new French-language production of Chekhov's play, opening tomorrow at Théâtre de la Villa for a three-week run (4274 2277)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesdsy: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

Europeau Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730

Mercantilists are treading on thin ice

PERSONAL VIEW

It is starting to look as though Dr Mahathir Mohamad, Malaysia's prime minister, has unwittingly done the British government a political favour by banning UK bidders from public contracts in retaliation against press reporting of the Pergau dam affair.

As well as eclipsing the domestic controversy over who did what in the affair, the ban has made it easier for ministers to defend their conduct by asserting that they were simply batting for UK plc in a ruthless world market. This stance may prove popular, to judge by recent letters to this and other newspapers. Business leaders have closed ranks to insist that Britain cannot afford to alienate customers who can choose from plenty of other suppliers.

That companies with commercial exposure to Malaysia should seek to limit the damage in this way is understandable. However, it is quite another matter to suggest, as some have done, that export-dependent countries such as Britain can pay their way only by subordinating other priorities and principles to the greater goal of a concerted foreign sales drive.

The neo-mercantilist lobby typically takes as its model Japan, whose postwar economic success it ascribes to seamless co-operation between government and industry. However, such arguments fly in the face of the very evidence adduced in their support.

Not only have leading Japanese companies such as Honda and Sony thrived precisely because their exclusion from this nexus of power forced them at an early stage to seek most of their business overseas. The institutionalised collusion and indulgence of special interests at the heart of the Japan Inc. system is now exacting a massive political price, in the form of the country's biggest peacetime crisis this century.

If the system has any parallel in Britain, the nearest is probably with the arms trade, where the government acts as producers' biggest customer, financier and salesman. Some may say that proves the virtues of a helping hand from Whitehall. After all, is not defence one of the few manufacturing activities in which UK companies still enjoy world-class excellence in engineering and technology?

However, the industry's "strategic" status and monopoly privileges in most countries mean international competition is as much between governments as between companies. In most other sectors, commercial risks and rewards are geared more directly to straightforward rivalry on quality, delivery and price.

Few people would dispute that governments can assist by gathering information, opening doors and otherwise smoothing exporters' path in foreign markets. That is particularly valuable in developing countries, where foreign companies' credibility gains from a show of confidence by their governments.

The idea that exporters must avoid offending foreign governments is objectionable

But the line between encouragement and second-guessing commercial judgments can be stretched dangerously thin if governments go much further. Beyond a certain point, moral hazard comes into play. How many bad debts have been accumulated by companies which over-zealously obeyed injunctions to export or die, in the belief that their governments would pick up the tab if things went wrong?

Nor does a narrow national focus on chasing foreign orders necessarily yield the expected rewards. In the 1960s, the Duncan Report recommended that Britain's embassies abroad downgrade classic diplomatic activities in favour of export promotion, a view enthusiastically accepted by the Wilson government. Yet the following decade, inadequate political reporting left Britain wholly unprepared for the overthrow of the Shah of Iran, support for whom had been at least partly influenced by his regime's importance as a customer for British exports.

But perhaps the most objectionable feature of the neo-mercantilist fallacy is the idea that successful exporting requires avoiding any action which might offend foreign governments. In its most extreme form, this comes dangerously close to implying that countries which respect freedom of expression and the rule of law should bend their principles to please those which do not.

In Britain, those who believe themselves victims of libel may seek redress in the courts. Dr Mahathir has not explained why he has not yet done so. Perhaps he does not believe he would receive a fair hearing. More likely, he refuses to treat with a system so closely identified with the "western values" which he has condemned as selfish and decadent. In this view, many individual liberties guaranteed by western-style democracy are irrelevant – if not, indeed, inimical – to economic progress.

The argument is false. Hong Kong, though not historically a parliamentary democracy, is blessed with a judiciary of unimpeachable integrity, an apolitical civil service and a free press. Its population also enjoys Asia's highest standard of living after Japan.

Last week, Mr Richard Li, a prominent Hong Kong Chinese businessman, told a London conference: "The cornerstone of Hong Kong's commercial success, and its ability to create wealth-creating capital, has certainly been the existence of an independent and impartial legal system.

"Coupled with a sound administration, it has provided entrepreneurs and investors, whatever their origin, with a level playing field. It is for that reason one of the most significant contributions to Asia's development, and is very much to Britain's credit."

Dr Mahathir – and those in Britain who appear so anxious to appease him in the name of economic self-interest – should take note.

Guy de Jonquières

William Dawkins and **Nancy Dunne** on the growing trade row between the US and Japan

On the verge of trading insults

Morihiro Hosokawa

Super 301: the original trade sins

- **Japan:** government procurement of foreign satellites and supercomputers; and imports of wood products. Deals concluded on all three, and US exports of these products have increased.
- **Brazil:** import bans and other import-licensing restrictions. Pact agreed and Brazil has since liberalised.
- **India:** trade-related investment measures and insurance market barriers. India refused to talk about changes. No sanctions were imposed, but the issues were referred to the Uruguay Round talks.
- **South Korea:** avoided a listing after agreeing to liberalise measures for foreign investment, and lifting import bans and other measures to protect local production.
- **Taiwan:** avoided a listing after agreeing to open its markets, largely through reductions in tariffs on manufactured goods.

Bill Clinton

President Bill Clinton's revival of the 'Super 301' trade provision last week looks like a blunt threat designed to pave the way for sanctions against Japan unless Tokyo opens its markets.

Yet the underlying plot is more subtle. For at the same time as tightening the screws, Washington wants to give both sides more breathing space following last month's failure by prime minister Morihiro Hosokawa and Mr Clinton to reach an accord on reducing Japan's record trade surplus, more than $50bn with the US alone last year, and liberalising its markets.

To many trade partners of the US and Japan, Washington's decision to up the ante is unwelcome. It reinforces what many see as a tendency for the world's two largest economies to negotiate on trade in an exclusive bilateral manner. The risk of bilateralism has already provoked warnings from the European Union to Japan and forms the core of Tokyo's objections to the US decision to reinstate 'Super 301' – the US trade law which permits the Washington to identify by name "unfair traders" and makes possible the imposition of US sanctions.

Neither Washington nor Tokyo is, however, behaving as if it wants a trade war. The US has indicated that it will apply 'Super 301' even less aggressively than by previously mild standards. 'Super 301' has never led to sanctions since its introduction by the Reagan administration in 1988 and is even less likely to do so on this occasion.

The US administration has given itself six months, until September 30, to name "priority foreign country practices" – but not necessarily countries – which obstruct US exports. The aim is to "spare embarrassment" to suspected offenders, a senior US official says. Washington will only then consider sanctions after 12-18 months of inquiry and consultation, and an appeal to the World Trade Organisation, the successor body to the General Agreement on Tariffs and Trade, if Washington believes multilateral rules are being infringed. "The president did not really let Japan off the hook," says Mr Harry Freeman, a US trade lobbyist. "He let the line out."

The concessions the US is fishing for in Japan include a permanent income tax cut, in place of the one-year reduction recently decreed by Tokyo, measures to boost consumer spending, and more radical deregulation than the moderate steps proposed by the Hosokawa government.

The Japanese government and business community are, meanwhile, in a mood to give significant ground to Washington. Although Japan's bureaucrats and politicians know that trade sanctions are unlikely, they sense that the current trade dispute with the US is unlike previous ones.

The fear in Japan is that the outcome will go beyond economic relations and damage Tokyo's strategic relationship with Washington. Mr Hosakawa's government is unsure exactly how, or even if, Washington's attitude to Tokyo has changed as a result of the end of the cold war; this dilemma is one of the central unanswered questions facing Japan's foreign ministry. Officials believe now that Japan has less strategic value to Washington as a buttress against communism in Asia, trade rows with the US might not be as easily containable as in the past.

The foreign ministry in Tokyo, chief advocate of caution against saying 'no' too loudly to Washington, fears that the trade dispute might harm long-term political and security ties with the US. At the very least, officials fear that the traditional comfortable link between trade and political co-operation in US-Japan relations has been broken.

Meanwhile, as Japan's export-dependent manufacturers have discovered to their heavy cost, the US does not need to resort to trade sanctions if it wants to apply economic pressure on Tokyo. Washington has only to talk up the yen, the strength of which is one of the biggest constraints on Japan's hopes of recovering from its worst recession since the second world war.

The Japanese government is, therefore, likely to accede to US demands. But two big factors are likely to limit the extent of Tokyo's concessions.

First, the seven-party ruling coalition is weak and divided and its capacity to deliver on anything has been sharply reduced. The second factor is the strength of feeling in Tokyo against binding import quotas. These numerical targets on imports are what the US appears to be seeking as a first step towards reducing Japan's bilateral trade surplus, as embodied in last summer's economic framework agreement between the two countries.

The Japanese government is under strong domestic and international support to face down the US on numerical targets, the one area where it can demonstrate more assertiveness than previous Liberal Democratic party administrations. This pressure was one reason why Mr Hosakawa was more direct with Mr Clinton at their summit last month than any LDP prime minister had ever been towards a US president. Yet even on the sensitive subject of numerical targets, officials in Tokyo and Washington have started to sketch out a compromise.

Evidence of the Japanese government's eagerness to assuage the US came at the weekend. Mr Hosokawa called an emergency cabinet meeting for Wednesday to discuss market-opening measures; the prime minister intends to present proposals to Mr Warren Christopher, US secretary of state, when the two men meet for talks on Thursday.

The private sector is also responding. At least two car producers, Toyota and Mazda, are preparing "voluntary targets" for the purchase of US components this year. IDO, the Japanese telecommunications group, is close to agreement on improved market access for Motorola, the US telecoms group which in recent months has been at the heart of a row over access for US mobile telephones in Japan.

Yet the government's ability to tackle the fundamental economic problems underlying Japan's persistent trade surpluses is limited by the coalition's current disarray.

Mr Hosokawa's ability to make economic policy decisions is looking shakier than ever after he was forced last week to scrap plans for a cabinet reshuffle to strengthen his economic team.

One side effect of the abortive reshuffle has been to weaken the position of Mr Ichiro Ozawa, an important influence on economic policy. Mr Ozawa is a valuable behind-the-scenes negotiator with the US, having recently suggested the adoption of non-binding "effort targets" for a cut in the trade surplus, an obvious step towards compromise.

However, the prime minister has risked alienating Mr Ozawa by turning down his demand for the removal of Mr Masayoshi Takemura, the chief cabinet secretary, who upset a package of Ozawa-inspired tax reforms in January. Any signs over the next few weeks that Mr Ozawa is losing patience with the prime minister could bode ill for economic policy.

The muddle in government and the absence of a strong opposition will no doubt reinforce US suspicions that foreign pressure is the only way to get results. Mr Fred Bergsten, director of the Institute for International Economics and a renowned US trade hawk, says: "The unfortunate reality is, the Japanese tell us, in every single case we have to threaten sanctions because that's the only way they move."

What makes the current row unlike previous tiffs, is that it is still unclear how much ground Japan's government can give and what will be the wider non-economic consequences of its failure to do so.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

French in no position to criticise US

From Mr Richard McCormack.

Sir, Loud French protests over president Clinton's successful efforts to encourage Saudi purchases of US civilian aircraft struck me as being a tad on the hypocritical side ("French attack Clinton on aircraft sales", March 2).

For more than a decade as a senior economics official of the US State Department, I observed president Mitterrand and a galaxy of other Europe leaders on sales missions to the Middle East and elsewhere.

I noted efforts to link state-to-state political favours (or sometimes threats) to national commercial interests, including aircraft sales, oil concessions, arms deals, and construction projects.

The US government occasionally protested against this behaviour at an official level. For years we quietly warned that we could also play this game, and powerfully so, if others continued to practice.

President Clinton has just demonstrated the truth of that observation.

Commercial deals and international politics ought to be separated. Perhaps this is an unattainable ideal. But in any case, under prevailing realities and current widespread practices, the French have no grounds for complaining about president Clinton's efforts on aircraft sales other than the fact that, on this occasion, he successfully trumped president Mitterrand's ace.

Richard McCormack,
under secretary of state for economic affairs 1989-91,
516 Watergate South,
700 New Hampshire Avenue, N.W.
Washington DC 20037.

Europe needs more small enterprises

From Mr Allan Willett.

Sir, Martin Wolf's excellent commentary on your EU Business Survey of European Competitiveness ("A relapse into Eurosclerosis", February 24) came down firmly for three core recommendations. These were to increase competition and deregulation, and diminish the burden of the public sector. In other words continue and intensify the political and economic philosophies of the 1980s. May I add a fourth as a basis for a policy more suited to needs of the 1990s.

In general, attention on the performance of manufacturing industry fails to differentiate strongly enough between different types of company. Evidence accumulates daily showing that while many large companies and sectors dominated by large companies are shrinking, employment and growth are coming from the dynamic entrepreneurial SME sector. My own company, privately owned, turns over £50m a year; 90 per cent of its British made high-technology coding systems are exported. The EU needs more examples of similar enterprises.

To encourage that to happen, strong industrial structural adjustments are needed across the EU. These should favour innovation and enterprise in the dynamic entrepreneurial sector. The need includes encouragement of innovative approaches from key service suppliers such as banks; improved linkages with academic R & D; changes in the laws relating to personal guarantees and bankruptcy; guidelines of acceptable practice by the venture capital industry; and measures to promote partnership-supplier relationships with larger companies. But the key must be greater understanding and support for the dynamic entrepreneurial sector from all levels of economic management, the European Commission to national governments and their industrial policy agencies.

Allan Willett,
Willett International,
Cronin Road,
Corby,
Northants, NN18 8AQ.

Out to grass, but still grazing

From Mr Ian Powe.

Sir, The debate about who regulates the regulators will be enlivened by reports that the recently retired director-general of Gas Supply is to advise a gas supply company in competition with British Gas.

This development, presumably approved by DTI officials, conflicts with the UK energy minister's commitment to "unwind the tilt" against British Gas. Former regulators will, of course, comply with restrictions on disclosure of information, such as those embodied in Section 42 of the Gas Act 1986. But there is nevertheless a feeling among consumer groups that, once put out to grass, regulators should not graze in fields where public service has made them privy to information denied to others.

Ian Powe,
Gas Consumers Council,
Abford House,
15 Wilton Road,
London SW1V 1LT

Japanese out in front

From Mr Stephen Rowlinson.

Sir, Your coverage of UK car production statistics for 1993 highlighted Rover overtaking Ford as the UK's biggest vehicle manufacturer and noted the industry made the highest number of units since 1974 ("Car output at highest level for nearly 20 years", March 2).

The figures, however, told another and more dramatic story about the rapid structural change taking place in the industry. Rover's creditable but modest increase of 30,000 units (+7%) was in fact more than offset by the 80,000-unit drop in output from the total of Ford, GM and Peugeot and therefore overall production from established players in the UK was down 50,000 units. Far from matching performance of 20 years ago the companies, which then made up the UK industry, are now operating at little better than two-thirds the 1970s' levels.

The one reason for the reversal of the long-term decline of the British motor industry has been the superb performance of Japanese transplants – Nissan, Toyota and Honda – which together raised unit production last year by 136,000 units – no less than a 75 per cent increase. The three groups accounted for nearly a quarter of all cars produced in the UK and sailed past GM and Ford with combined output of 316,000 units compared with GM's 274,000 and Ford's 301,000. Thank heavens for the policies that made the UK the most attractive European location for inward investment

Stephen Rowlinson,
Merton Associates,
70 Grafton Way,
London W1P 5LE

Multilingual pictures centre could give Europe edge on Hollywood

From Gauti Kristmannsson.

Sir, The answer to your article "Quest for a strategy to match Hollywood" (Can Europe Compete? March 1), is yes: Europe can compete by concentrating on communication instead of cultural isolation.

This can be done by addressing the problem of language. European film producers and culture ministers have to think multilingually if they want to compete with Hollywood. This is what US film producers did in the 1930s when they had their movies dubbed in the relevant languages before selling them in Europe.

Beacuse the home market is so small, such an investment is impossible for low-budget producers in Europe who have many more languages to consider. One solution is a cultural communications centre to act as mediator for participating countries and to enable producers to have material translated, subtitled or dubbed. Distributors are undoubtedly more willing to take on films ready for distribution.

Working with professionals on a freelance basis, the centre would not require an army of people: it could make services cheaper and European films more accessible worldwide. There are markets in south-east Asia, where works of art are frequently savaged with one or two voices speaking over for the whole cast while the original can be heard in the background. Better service now would not diminish the future market for European producers. Europe could then create a Hollywood, albeit without the stars, but possibly with success.

Gauti Kristmannsson,
An der Hochschule 3/402,
76726 Germersheim, Germany

[redacted]

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Monday March 7 1994

Welcome deal in Germany

The last-minnte agreement to avert a German engineering strike shows that both employers and trade unions are making a serious effort to restore competitiveness in Europe's largest economy.

A strike this week in the northern state of Lower Saxony to support a claim for a country-wide pay rise of up to 6 per cent would have severely damaged Germany'e efforts to climb out of recession. With unemployment now above 4m, and inflation probably falling below 3 per cent later this year, a labour stoppage would have started a battle the IG Metall union could not have won.

The weekend deal contains positive elements for both sides. As compensation for a wage rise of only 1.2 per cent for the whole year, the union has won employer approval for specific job guarantees at companies that reduce pay and working hours because of falling orders.

After a cumulative rise in German unit labour costs of 15 per cent in the past four years, the wage accord gives employers the opportunity to make badly needed cuts in unit costs as they improve productivity.

It could be argued that the agreed increases in labour market flexibility should have been more radical. Some details of the package of wage and job cutting options look unhelpful. Additionally, the country-wide engineering pay bargaining structure, one of the main sources of wage rigidity in recent years, has survived intact.

A strike could have weakened the system by encouraging more plants to agree wage deals on a company-by-company basis. However, an accord which unambiguously favours competitiveness while preserving Germany's consensus-based social partnership is still welcome. The outcome will strengthen the government's chances of pushing through necessary pay restraint in forthcoming public sector pay talks.

In a country still struggling to come to terms with many economic challenges, one pay deal cannot transform the industrial outlook. Germany must make a more determined effort to tackle the non-wage costs which have had a still greater impact than high wages in lowering industrial performance. Reflecting the consequences of recession and reunification, social security payments in Germany, according to OECD figures, are likely to make up 22 per cent of GDP this year, up from 15.2 per cent in 1990 - a moch larger increase than in any other big industrialised country.

Finding methods of satisfying welfare demands without heaping job-killing financial burdens on enterprises will be a principal task for the government that emerges from the October elections. Germany needs to maintain its traditional consensus between labour and capital, yet in a manner more responsive to economic realities than in recent years. Tha metalworkers' deal demonstrates that both sides of industry can adopt constructive policies. If they can build on this approach, confidence in German recovery will grow.

Part-timers

Two important court judgements last week, based on European law, are set to enhance the rights of some British employees. The first almost certainly means that consultation procedures with employees will have to be established in the many organisations where they do not already exist to cover certain cases of business transfer and large-scale redundancies. The second means that part-time workers will have to work for an employer for only two years rather than five to be covered by unfair dismissal and redundancy pay provisions.

This underlines the point that Britain's ability to opt out from European Union social legislation was always likely to be constrained in practice. But it does not mean that the British programme of labour market de-regulation has been stopped in its tracks. Indeed, contrary to the claims made by depressed Conservative Euro-sceptics and over-optimistic union leaders, the effects of tbe judgement are likely to he rather limited. The consultation judgement will not apply to small companies and will require, at most, an election procedure to establish consultation arrangements, which can be dissolved as soon as a transfer or redundancies have occurred. It will not mean the establishment of works councils up and down the land.

In the case of part-timers the five-year qualification threshold for employment protection, accepted by all Tory and Labour governments since 1971, has always seemed an unfairly long time to decide whether someone's face does not fit. Moreover, the potential redundancy payments will never amount to more than a few hundred pounds. In any case, only about 500,000 out of Britain's 5.8m part-timers are likely to gain from the two changes.

Although the government will fight the consultation judgement if it is confirmed by the European Court of Justice, it seems to be taking a relatively sanguine view of these developments. This may be because it does not want to stir up its own Euro-sceptics prior to the European elections. Bnt it may be also that it recognises that the changes involved are too small to have any impact on demand for labour. Part-time work expanded just as fast in the more regulated and union-influenced labour market of the 1970s as it did in the less regulated 1980s, suggesting that there are bigger economic and social factors at play.

It is also true that even after the recent judgement takes effect there will be a big cost and regulatory bias towards part-time employment, especially if an individual is earning under the £56 a week threshold for National Insurance payments. Given the difficulty European economies have displayed in creating full-time jobs, especially for lower skilled workers, governments would be wise to seek further incentives of this type to stimulate this part of the labour market, rather than seeking to deny basic employment rights to part timers.

Clinton's 301

Governments must choose between bilateral and multilateral approaches to trade policy. As Mr Peter Sutherland, the director-general of the General Agreement on Tariffs and Trade, ohserved in New York last week, that choice was not, in fact, made with the completion of the Uruguay Round last December. On the contrary, the US believes that both can run in parallel. That is the significance of the revival by president Clinton of the 'Super 301' trade provision. But he is mistaken.

'Super 301' is not particularly significant in itself. Certainly, it does not have to be used in ways contrary to the Gatt. Revival of 'Super 301' may even reduce congressional pressure for immediate action, giving both the US and Japan a breathing space during which to resolve their current conflict. After the failure of last month's summit between president Clinton and Mr Morihiro Hosokawa, such a breathing space is highly desirable.

It will also not be enough on its own, since Japan may use its time to determine on dangerous concessions. If, for example, Japan were to decide upon increased government management of the economy, it would damage itself. But it would also reinforce the general appeal of the concept of "managed trade", which is what Mr Sutherland rightly labelled a "misguided and dangerous approach from all points of view".

What is needed is not just a deep breath, but deep thought, on both sides. Why, for example, should the Bank of Japan stand idly by while the yen soars? It should be selling the yen, instead, which would restrain the external value of the currency and, more important, expand the money supply.

Meanwhile, the US needs to put forward a far better economic justification for its complaints about Japan'e bilateral and overall trade surpluses than it has managed hitherto. It also needs to ask itself why its bilateral approach has been so roundly condemned. The concern is that a kind of lynch law will undermine the credibility of the international rule of law.

At present the US is determined to act as prosecutor, jury, judge and executioner. What is needed, instead, is an objective assessment of Japan's alleged failures, along with neutral arbitration of the disputes. Even where US complaints do not fall under the current Gatt, the latter could still be asked to provide both an objective assessment and arbitration. Such an approach would be far better than accepting the wish of the European Union to turn the debate from a bilateral into merely a trilateral one.

The US must be helped off the hook on which it has impaled itself. If the bilateral approach is continued, both its international relations and the multilateral system itself will be gravely damaged. The sensible alternative is to use the good offices of the central institution of the system, instead. That is the choice Mr Clinton should now make.

Charles Batchelor assesses the remaining problems facing British Rail as it prepares for privatisation

Obstacles on the mainline

Cut-price fares; a "kids go free" scheme; discounts on purchases at airport duty-free shops. The 27 miles from London to Gatwick airport have become the most hotly-contested stretch of British Rail track.

The three companies slugging it out on the Gatwick line are providing a first glimpse of what rail privatisation might mean for Britain after 45 years of a nationalised network.

Critics of privatisation say that competition on the Gatwick route consists of marketing gimmicks that hava simply confused travellers unaccustomed to competition on the railway. But the outcome of the battle for the airport passenger will provide important markers for the future of BR's entire 10,270-mile network.

Gatwick Express is the first of BR's "shadow franchises" - parts of the railway network which will be run by their existing management as independent operations to establish how attractive they might be for private bidders.

The experience of its first few weeks provides an indication of how difficult it will be to run a railway at a profit. Gatwick Express just about broke even in spite of carrying higher than expected numbers of passengers because of a surge in the volume of travellers passing through Gatwick.

Gatwick is an experiment on a very modest scale hot it illustrates the size and nature of the problems still to be addressed when private-sector managers, including management buy-out teams from BR, get down to making the theory of privatisation work in practice.

For all the controversy that accompanied the passage of the railways bill through parliament last year, the proposed framework still falls far short of the conventional pattern of privatisation of the past decade. BR's losses - £164m in 1992-93 in spite of a government subsidy of more than £600m - forced the government to adopt a compromise: franchising out the running of the trains to private operators while offering them subsidies where necessary.

The sale of franchises is due to start this year with Gatwick Express and accelerate through 1995 as more lines are prepared for operation as independent companies. However, some BR managers believe BR will be unable to keep to this ambitious timetable.

A separate company, Railtrack, has been set up to take over the ownership of BR's infrastructure from April 1. Railtrack last month announced its charges for train-operating companies that wish to use BR track. The charges are sharply higher than thosa made to BR's regions under its internal accounting system.

Railtrack says private-sector train operators will be compensated for the higher track charges with an increased subsidy. But some potential bidders for BR franchises complain the onerous track charges will push even profitable parts of BR into loss and demotivate managers. Private-sector operators would also be vulnerable if state subsidies are reduced in the future.

Railtrack itself is due to be privatised within the next faw years under the leadership of its chairman, Mr Bob Horton, a former chief executive of British Petroleum. Two other key personalities have also started to piece together the rail privatisation jigsaw. Mr Roger Salmon, a former merchant banker, has been appointed by the government as franchising director to negotiate contracts with private bidders for BR's operations. Mr John Swift, a lawyer, has come in as rail regulator, charged with ensuring that safety standards are met and that a fair balance is struck between the conflicting interests of all participants in the post-privatisation era.

But other important parts of the jigsaw have yet to be assembled, including the three regionally-based financing companies that are to own and lease rolling stock to the train operators.

The crucial question of how many private-sector groups are likely to bid for a franchise is still unanswered. Between 40 and 50 companies have expressed an interest but it is not clear how many will emerge as serious bidders.

Bus companies such as Stagecoach and Badgerline are among the interested parties; so too is Sea Containers, the transport and ferry group. Senior BR managers are considering staging management buy-outs, among them Mr Chris Green, managing director of InterCity. Mr Green takes charge of Scotrail in April and is already working on plans for a management buy-out of the Scottish rail network.

Transport specialists express concern that most of the possible private-sector bidders that have so far emerged lack the financial or management resources to develop a railroad. The bus companies and management buy-out teams at least have experience of running transport systems but are unlikely to be in a position to make substantial investments.

"If rail staff come along with £100 of capital each in a buy-out we will have a deteriorating system," says Mr James Sherwood, chief executive of Sea Containers. "Big companies must come in and invest billions of pounds to improve the system," he says.

An additional fear on the part of bus operators is that UK monopolies regulations could prevent them from running train and bus services in the same area. "Why should bus companies go through the hoops of trying to huy a rail franchise when they could more easily expand their bus operations through acquisition," says one industry observer.

Sir Boh Reld, BR chairman, is sanguine. "I would be surprised if there was any great interest [in bidding] at this stage because no one knows enough abont the franchises," he says. Increased interest will only come when more of the framework in which the private-sector railway companies will operate has been put into place, he says.

The central aspects of the privatised railway regime that still concern potential private-sector franchisees include:

● The ownership of BR's track and signalling. In spite of the creation of Railtrack and the government's decision to separate the ownership of the railway's infrastructure from the operation of the trains, some potential private-sector franchisees are lobbying for a relaxation of the rules to allow them to own infrastructure as well as run trains.

Supporters of the present framework point to airlines, which do not own airports, as an example of an industry where infrastructure and service are successfully split. But private-sector bidders say that with track costs accounting for more than half of their overheads, railway operators must be allowed to own the track on which they propose to run their services.

The government is, however, willing to allow vertical integration in certain exceptional cases such as the Isle of Wight railway; there is also private-sector pressure on the government for the Scottish network to be treated in the same way.

Acceding to such pressure would strike at the core of the government's post-privatisation rail structure. The government's room for manoeuvre is, therefore, limited. But Mr Salmon says he is willing to consider "non-compliant bids" which diverge from the ground rules laid down by the government, provided they are submitted early.

There is a wide body of opinion in both BR and the private sector that believes splitting track and train operations will prove unworkable. "There will be chaos for two to three years and then a sensible system will emerge but only after substantial reform by government," says one transport analyst.

● The degree to which private-sector competitors will have "open access" to run trains on franchised routes. The government wants open competition but the experience of bus privatisation, where fierca rivalry erupted on popular city centre routes clogging traffic and leading to a poorer service, has frightened off some potential private-sector rail franchisees.

The likelihood is that given "open access", private-sector competitors would only offer limited services on lucrative lines. "They would cream off the profitable routes and the whole edifice would crumble," says Mr Brian Cox, managing director of the rail division of Stagecoach Holdings, a bus operator.

● The duration of franchises. The government believes the shorter the franchise period the better. This is because it would ensure private-sector operators met minimum levels of service within the briefest time-span. A short franchise would also allow the government to bring in a new franchisee if the original operator did not perform satisfactorily. The initial government proposal for the duration of the franchise was between five and seven years; bnt Mr John MacGregor, transport secretary, has grudgingly moved to the idea of 15-year franchises, largely in response to private-sector lobbying. But, faced with buying rolling stock with a life of about 30 years, possible private-sector bidders are still pressing for longer terms.

● The flexibility of the system. With separate companies owning the track, rolling stock, and carrying out repairs, bow efficiently will the proposed framework operate? Tbe general fear is that sucb a set-up will lead to an elaborate system of contracts and agreements.

"The complexity of the privatisation proposals will not make it easier to raise funds," said one potential private-sector bidder. "There is a danger that there will be even more bureaucracy than there was under BR." And, ask many industry observers, who should bear responsibility in the event of a derailment or wben a train breaks down? And whose trains should be given priority when timetables are rescheduled following cancellations?

There is a danger that such disputes between different players in the new railway age could lead to damaging litigation. Franchise director Mr Salmon claims to have devised a "no-fault incentive scheme to keep the lawyers in their place". The theory, he says, is that all participants have a commercial interest in solving problems quickly and providing a a sound service.

But doubts remain about whether so many players can work efficiently together. Mr Swift, the railway regulator, has made plain the limits of relying on commonsense and points out that the law is the ultimate guarantor of fair dealing. But tensions between Mr Swift and Mr Salmon seem inevitable: Mr Swift's role is to ensure a fair pricing structure; bnt this objective could undercut Mr Salmon's drive to attract private-sector hidders determined to set their own fares.

Ministers are fond of drawing comparisons with the airline industry, which operates on a system of contracts with airports for landing rights and maintenance services; the comparison is designed to show that such a division between the "infrastructure" and the "eervice operator" can work. Similarly, Mr Horton points to Marks & Spencer's successful relationship with its suppliers, under which the manufacture of M&S clothes and foods by sub-contractors is distinct from the retail end of the operation; critics point out, though, that M&S does not have to share its stores with Tesco.

● The validity of tickets across the system. One advantage of the present set-up is that passengers can travel across the entire network on a single ticket. This may cease after privatisation.

The government is insisting that private-sector rail operators recognise each other's full fares and season tickets; discounted tickets, however, will not be mutually recognisable. With up to 80 per cent of all tickets sold at a discount this could either push up the cost of travel considerably for the vast bulk of travellers or bar passengers from taking the most convenient train.

For the private-sector rail franchisees, the problem of sharing revenues from a journey that criss-crosses the routes of several different operators, could prove a nightmare. How are costs and takings to be allocated over a journey that involves a mainline section followed by a shorter stretch of local line?

These unresolved issues are daunting and time is running out before the next round of "shadow franchises" start and Railtrack takes over responsibility for BR's infrastructure on April 1.

"It is important to get the first one or two franchises right," says Sir Bob Reid. "We must ensure that what goes to the market is coherent."

But with the first private-sector railway companies now only months away from commencing services, it remains an open question whether the new system can be made to work.

Railwey privatisations in countries such as Jepan and Sweden have been more modest in their scope. BR's aim is more ambitious and the possibility of derailment that much greater.

OBSERVER

Lovely Rio de Toryio

■ With impeccable timing - just as the country's latest economic stabilisation plan seems ready to expire - a flood of British bigwigs are zapping into Brazil to size up investment prospects.

Michael Portillo, the Treasury chief secretary, has come trailing banking and industry worthies. When Portillo goes, air chief marshal Sir Michael Graydon arrives for talks with his opposite number.

Baroness Thatcher is also on her way, funded by private Brazilian businessmen. She will quickly be superseded by foreign secretary Douglas Hurd, arriving at the beginning of April. Trips are also scheduled for Richard Needham - trade minister - and agriculture secretary Gillian Shephard.

What's brought all this on? Sure, British exports to Brazil increased 52 per cent last year; but that's still small beer, at £660m. And Brazil has all the hydro-electric dams it can manage, thank you.

Spell-cheque

■ Microsoft chairman and co-founder Bill Gates is careful to whom he gives his home telephone number, but John Seabrook, interviewing Gates in the latest Esquire magazine, tells us the nerdish-looking mnlti-billionaire is more than happy to communicate via e-mail.

Seabrook struck up a matey electronic relationship with "Billg", quickly learning to copy the maestro by dispensing with formalities such as Dear and Yours.

Gates apparently spends two hours a day reading and writing e-mail. While Gates gives little away - "having lots of money is a corrupting thing" gives a flavour - former girl friends recall his apparent indifference to personal hygiene and his spectacles being so grimy as to he ineffective. Gates says he invariably runs a comb through his hair before dispatching e-mail - "hoping to appear attractive". Most odd.

Fair winds

■ Bo Goranson is a businessman hoping to prove that running a yacht isn't necessarily an expensive hobby.

His Intrum Justitia debt collection group is sponsoring e yacht in the Whitbread round-the-world race, which started last September. The company thinks sponsorship pays; it reckons its £3m sponsorship has recouped about £13m of free media coverage.

Goranson, 56, who owns 30.9 per cent of the company, which is reporting annual results today - with profits expected to be lower than market expectations - hasn't done as well as he might. Its shares stood at 90p before the competition started, reached a high of 129p, but have fallen back to 116p.

'If I didn't have more money than sense I wouldn't pay myself so much money'

Tough emmenthal

■ Attention all double agents - Switzerland is still a safe haven for your undercover earnings.

The Swiss government has rejected a request from Washington to freeze the Zurich and Geneva bank accounts of former CIA officer Aldrich Ames and wife Rosario, facing charges in the US of spying for Moscow. The US claims the couple made at least $2.5m from the Russians. Swiss federal police are not impressed. Spying, they say, is a political, not a criminal offence; so they cannot oblige.

Norman's wisdom

■ Norman Lamont'e chances of finding another parliamentary seat are looking daily bleaker. With his Kingston-upon-Thames constituency due to disappear because of boundary changes, the sacked former chancellor had been looking to a new seat, the Vale of York.

But not only is party chairman Norman Fowler being most unsympathetic; local man Nicholas Jopling, son of former chief whip Sir Michael, is a racing certainty to fill the vacancy. Lamont will have to look elsewhere. No-one at Tory Central Office rates his chances.

Oscar Bravo

■ In January Observer brought news of Edward Belgeonne, a veritable British entrepreneur who at the age of 30 had just sold his second mobile phone business, for £1.5m, in order to nurture a burgeoning career as a pop star fronting a band called Gone Tomorrow.

Belgeonne investigated the business of musical recording and promotion - to discover the royalties from a big label would be e paltry 20 per cent.

A businessman to the end, that kind of margin leaves him cold. So welcome Oscar Records, his own new label - where he will pay himself much healthier royalties of 75 per cent. One of the numbers on the band's first CD is "I can't fly"; singularly inappropriate so far.

Howard's way

■ Michael Heseltine may be gaining support from the Tory right as future contender against John Major; but some key king-makers seem not to be in the giving vein.

Home secretary Michael Howard - another right-wing pretender to Major's throne - was asked four times by David Frost on BBC breakfast television yesterday whether be forgave Heseltine his part in the usurpation of Baroness Thatcher, when prime minister. Howard evaded the question on each occasion. With endorsements like that, who needs enemies?

Only asking

■ Ascom, Switzerland's struggling telecoms equipment maker, should today reveal a 1993 loss of around SFr350m. But who will report it? The chief executive was sacked in December; the finance director walked out last month; and the much criticised chairman Heinz Frey will stand down at the AGM.

FINANCIAL TIMES
Monday March 7 1994

Ukraine reclaims Black Sea fleet in gas dispute

By John Lloyd in Moscow and Jill Barshay in Kiev

The commander of Ukraine's navy bas repudiated last September's accord which transferred the Black Sea Fleet from joint Russian-Ukrainian jurisdiction to exclusively Russian control.

The move comes as relations between the two Slav neighbours deteriorate because of beavy cuts in Russian gas supplies to Ukraine, and continuing tension over the status of the Russian-dominated Crimean region of Ukraine.

Russia bas used Ukraine's $3.2bn energy debt as leverage to gain Ukraine's share of the 350-vessel fleet based in Ukraine. But Russia, which is in deep economic difficulties, is now calling in the energy debt, leaving Ukraine with little to lose by refusing to hand over tbe fleet.

Mr Leonid Kravchuk, the Ukrainian president, is also threatening to renege on a deal to give up his country's large arsenal of more than 1,600 nuclear weapons.

As Russia's gas giant Gazprom announced further deep cuts in supplies to Ukraine over tbe weekend, Mr Kravchuk said in Washington that "fulfilment of all agreements, including agreements on nuclear commitments, is possible only if the economy works. If tomorrow factories come to a halt in Ukraine, and this is a reality if there is no gas, wbat carrying out of commitments can be spoken of?"

However, tbe official news agency Itar Tass said yesterday that the first 60 of the 1,600 warbeads due to be shipped out of Ukraine arrived on a train in Russia on Saturday. On Friday, Russia's nuclear energy ministry said that it had begun to supply low-enriched uranium to Ukraine, thus honouring its part of the trilateral agreement reached in Moscow in January between Presidents Kravchuk, Yeltsin and Bill Clinton of the US.

Meanwhile, in the naval port of Sevastopol, Vice-Admiral Vladimir Bezkorovainyi, who took part in last September's talks on the Black Sea Fleet, said the Ukrainian side was now demanding a reversion to a prior 1992 agreement made in Yalta, under which the fleet would be divided by the end of 1995. He said that Russian premier Viktor Chernomyrdin had agreed to an inventory of the fleet – tbough the Russian defence ministry would not confirm this.

The two sides in Sevastopol live in constant tension. Admiral Eduard Baltin, the Russian commander of the fleet, has forbidden Ukrainian officers from joining the fleet because they have sworn an oath to Ukraine – while the Ukrainians have claimed control of a naval hospital and construction facilities at Nikolayev, and the Admiral Nachimova officers' training college in Sevastopol, one of the former Soviet Union's major naval training centres.

The Ukrainians are already beginning to build up a separate fleet, so far with only five ships. They claim the majority of those serving on the fleet are Ukrainian, tbough they admit that most officers are Russian.

Boost for trade pact, Page 3

VW launches radical plan to cut car production costs

By Kevin Done, Motor Industry Correspondent, in Wolfsburg

The Volkswagen group of Germany, Europe's leading carmaker, is embarking on a drastic restructuring of car development and engineering operations to cut costs and simplify its global manufacturing activities.

VW, which is losing money heavily, is planning to reduce the number of basic chassis platforms which are used to produce its range of cars from 16 to just four by tbe next decade.

The strategy will embrace all four makes in the group – Volkswagen, Audi, Seat and Skoda – and will eventually have a big impact on its manufacturing operations in Germany, Spain, the Czech Republic, Brazil, Mexico, China and South Africa.

It will bold tbe key in the long-term to VW overcoming its unenviable position as the high-cost producer in the European and world car industry.

Volkswagen, led by Mr Ferdinand Piëch, the controversial management board cbairman appointed 14 months ago, has sought in the short-term to stem losses by a barsh mixture of deep cuts in capital spending, a sharp reduction in the workforce and the introductioo in Germany of a four-day week with corresponding cuts in pay. He has also squeezed components suppliers to reduce purchasing costs.

If the so-called platform strategy is applied as rigidly as planned by Mr Piëch and Professor Ulrich Seiffert, group research and development director, it will spell the end of the road for production of the Volkswagen Beetle, which is assembled in Mexico and Brazil.

It will also rule out development of new products such as a micro-compact car, like the two-seater city car prototype unveiled hy Mercedes-Benz last week.

VW's radical platform strategy is similar to the one being pursued hy General Motors, the highest cost US carmaker, which is aiming to cnt its US car platforms (excluding its Saturn small car) from 12 in 1991 to 5 by the end of tbe decade.

Prof Seiffert said the VW group's four car platforms (excluding ligbt commercial vehicles and the multipurpose vehicle under development with Ford of Europe) would consist of:

- the AO platform for small cars, which will form the basis of the new VW Polo, due for launch in the autumn, and will spawn derivatives to replace cars such as the aged Skoda Favorit and the Seat Ibiza launched last year.

VW's planned low-price small car due for production in 1996-97 – still a genuine four-seater in contrast to earlier plans – would be based on a shortened version of the AO platform.

- the A platform, for lower medium cars, which will provide the base for the next generation VW Golf, a second Skoda range, a new small car for Audi (A2), and a Seat Toledo replacement.
- tbe B platform for upper medium and executive cars, which will spawn most of the Audi range with replacements for the Audi 80 (A4) and 100 (A6) and the next VW Passat.
- the D platform for the aluminlum-bodied Audi A8 luxury car.

Platform for growth, Page 21

Widescale European healthcare reforms hit drug sales

By Paul Abrahams

Drugs sales in Europe's seven largest markets fell sharply in dollar terms last year after widescale healthcare reforms.

Europe's five largest markets – Germany, France, Italy, the UK and Spain – have all announced or enacted reforms over the last 15 months. Sales in the seven largest markets, which include Belgium and the Netherlands, fell from $51.6bn in 1992 to $45.97bn last year, according to IMS International, a market research group.

In the German market, Europe's higgest, sales dropped to $12.66bn from $14.82bn in 1992 – a fall of 9 per cent in local currencies. Italy, the third largest market, also declined, from $11.06bn to $8.45hn.

The rate of sales growth fell in every therapentic category in Europe. The cardiovascular market, which expanded at 7 per cent in 1992, grew only 2 per cent last year to $10.13bn. The growth rate for treatments for alimentary and metabolism disorders, the second most important category, also fell, down from 8 per cent in 1992 to only 1 per cent last year.

The anti-infectives market which include anti-virals, antibiotics and anti-fungal drugs, posted the strongest growth, np 8 per cent last year compared with 9 per cent in 1992.

Meanwhile, the US market, the world's largest, expanded only 5 per cent from $42.95bn to $45.22hn. Companies operating tbere have suffered from hoth political pressure aimed at moderating price rises and the negotiating of discounts hy hulk purchasers. The Canadian market grew by 7 per cent in local currency, and rose from $3.5bn to $3.514bn measured in US dollars.

The Japanese pharmacy market – exclnding hospitals – increased hy 6 per cent in yen terms, np from $16.6bn in 1992 to $20.2bn last year. But the Japanese ministry of health and welfare is implementing a price cut and other reforms aimed at limiting drugs spending.

Sales of cardiovascular drugs in the 10 largest markets – the US, Canada, Japan and the seven European countries – rose hy only 1 per cent in local currency value, although in dollar terms they actually fell from $21.98bn to $21.2hn. Among the largest categories, anti-infectives were the hest performers, np from $11.02bn to $11.7bn, a rise 9 per ceut in local currencies.

Worst performing were musculo-skeletal treatments – mostly anti-rbeumatics. This was tbe only category to register a year-on-year local currency decline in the 10 markets. Sales fell by 1 per cent, as a series of patents expiring aronnd the world undermined the market, which dropped from $7.13hn to $6.91bn.

THE LEX COLUMN

Taking a shine to metals

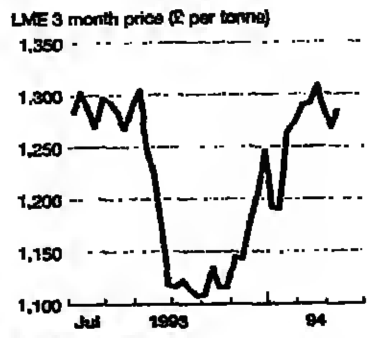
RTZ announces full-year results this week against the cheerful background of rising base metals prices. Copper, the company's most important metal, has risen hy 15 per cent from the depths plumbed last autumn. That pattern has been repeated in aluminium, nickel and tin. The strength of the rally is surprising given the discouraging fundamentals. Most metals markets face huge overhangs of stock, which could increase again this year.

Forecasting the supply-demand balance in most metals is unusually tricky at present. Imponderables such as the growth of Chinese copper consumption and the level of aluminium exports from the Commonwealth of Independent States cloud an already murky picture. Even on the most optimistic assumptions, though, stock overhangs are likely to remain a feature well into next year. On that basis, the turn in metals prices has come unusually early in the economic cycle.

Speculative buying may provide an explanation. Low interest rates have always increased the attractions of metals for fund managers by reducing the carrying costs. With copper still 30 per cent below the peak reached in 1989, for example, the metal is clearly cheap. But rising trading volumes on the London Metals Exchange have made base metals more liquid investments in recent years. Improved clearing arrangements have added to the attractions. If a substantial proportion of stocks are now held by fund managers, metals markets may be tighter than hitherto assumed. Were such investment to prove more than a passing fad, rising metals prices may no longer be the late-cycle phenomenon of old.

Copper

LME 3 month price (£ per tonne)



Source: Datastream

UK property

There was mnch excitement a while back when long gilts yields fell below property yields for the first time in a generation. That made property seem an especially attractive asset given its characteristics as a quasi-bond with a 25-year lease and a minimum fixed income stream once fully let. A surge of huying interest is now driving down property yields. But with bond yields backing up again, the two yield lines are rapidly converging.

That may give some asset allocation committees pause for thought, which would be no bad thing. Buying has become almost frantic, with some properties changing hands at eye-watering yields. Property shares, too, appear temporarily to have run ahead of themselves. For example, Land Securities' share price has moved to a 41 per cent premium to its last stated net asset value of 504p per share. The value of Land's existing portfolio will have to rise at a thumping rate if its share price is to revert to the discount to net asset values which is traditional for property companies.

Historically, however, there has been little correlation between long gilt and property yields. The property sector marches to its own tune and is still at the early stages of its cyclical upswing. The big hope now is that rental growth may resume in the latter part of this year. Any awakening of dormant inflation would hasten its arrival while blighting the attractions of gilts. Retail rents may recover first, followed hy industrial property and high quality London offices. But, as ever, selectivity is critical.

British Rail

The merchant bankers advising the government on the piecemeal privatisation of British Rail will have to earn their fees given the complexities of the task. After all, British Rail is a £3bn-turnover business which will shrink further when divided between Railtrack and various franchise operators. Moreover, the railway network has a poor record, having steadily lost market share to other transport systems for years. It now accounts for just 7 per cent of all passenger miles travelled in the UK and bas a similarly small share of the freight market. The goodwill attached to British Rail's name is unlikely to be large.

Cast in a rosy light, Railtrack, which will own the track and signalling, could yet emerge as a privatised transport utility stock with a passing resemblance to a ports company or the airports operator, BAA. Its permitted rate of return will be the critical determinant of its saleability.

But attracting franchise nperators with sufficient capital to exploit the network is an altogether different proposition. Some quoted bus companies, such as Badgerline, have expressed a tentative interest. But they await the results of shadow franchise schemes to give a clearer idea of the relative financial attractions. The Office of Fair Trading has also to determine whether bus operators can run franchises in the same catchment areas.

The tasks of co-ordinating different franchisees' operations could be colossal. The franchising director will have to possess the judgment of Solomon to arbitrate between them.

Currencies

It is remarkable how little impact the turmoil in the bond markets has had on the dollar. Perhaps the consensus, which believed it would rise this year as the Federal Reserve tightened, was wrong about currencies too. Certainly the 7.5 per cent US growth rate achieved in the fourth 1993 quarter, the January purchasing managers survey and the latest rohust employment figures should push the dollar up. In the event it is trading slightly lower against the D-Mark than when the Federal Reserve tightened a month ago.

Some of this may have to do with the trade pressures that the US is exerting on Japan. The dollar's weakness against the yen has spilled over into the D-Mark as well, though that could change now that the US has shifted the focus from tbe currency market to direct sanctions under section 301 of its trade act. Leveraged investors may also be selling D-Mark positions they have held profitably for some time to cover their losses in other markets.

Yet it is difficult to escape tbe conclusion that the forces in favour of the dollar are weaker than the market thought. Germany's steep money supply growth will almost certainly delay Bundesbank interest rate cuts, and though the Fed will almost certainly tighten further it is far from clear how far the process will go. The interest rate differential may still not do much to help the dollar. Meanwhile the US current account deficit is a drag. And if the market is reluctant to buy dollars now, that may be because it is long enough already.

EU policy

Continued from Page 1

associate EU members. But senior Brussels diplomats believe France may also be ready to consider integrating the east Europeans in areas of foreign and security policy as well as justice and home affairs – but not as full beneficiaries of the CAP and structural funds.

German strike threat

Continued from Page 1

does not amount to the fnll flexihility songht hy employers, allowing individual enterprises to negotiate longer or sborter hours according to their needs. It only provides for a shorter-working bour model for those with severe overcapacity.

The agreement means that the strike by almost 11,000 engineering workers in the state of Lower Saxony, dne to hegin at 6am today, has been called off, although the workers will have to confirm the decision in another ballot.

Warning strikes by pnhlic sector workers will go ahead today and tbe hanking unions plan similar action later in the week.

FT WEATHER GUIDE

Europe today

In central and northern Scandinavia, a depression will bring snow with afternoon temperatures below freezing. A cold front will sweep into Germany, bringing rain in much of Germany and Poland, as well as fresh to near gale force winds at the northern coasts.

The Benelux will be cloudy with outbreaks of drizzle in the south.

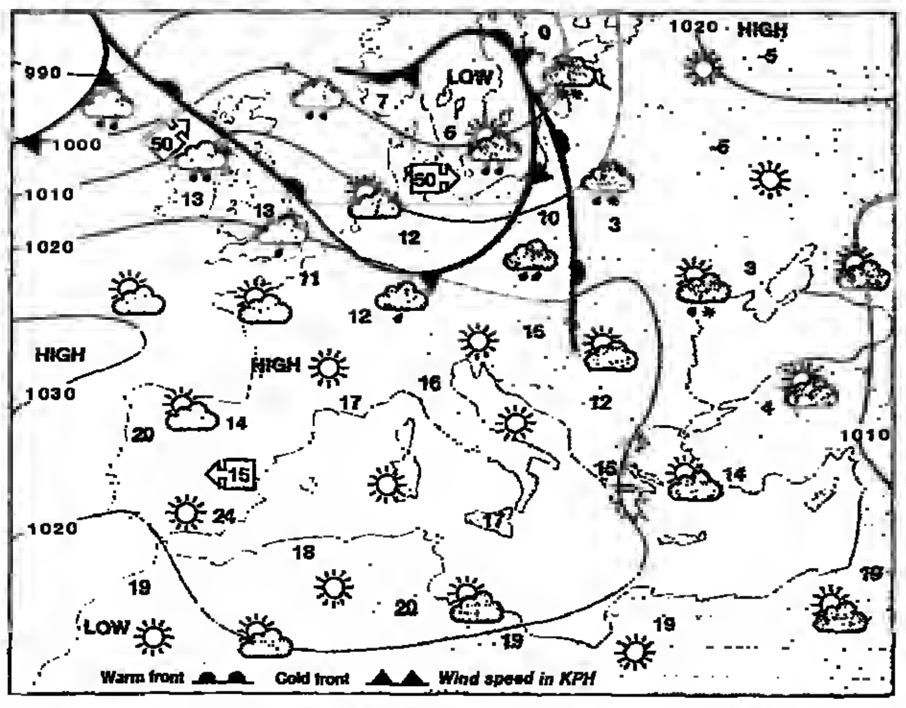
In the northern Benelux, there will be sunny spells. Conditions will be unsettled and windy at times over the northern half of the UK.

Southern Europe will be mainly dry and sunny, as a large ridge of high pressure develops in the east. Along the south-eastern coast of Spain, persistent cloud will drift in from the Mediterranean, but it will remain dry.

Five-day forecast

Wintry conditions will continue over northern Scandinavia. Depressions will cross the northern Atlantic, causing rain and occasionally strong winds in north-western and western Europe.

Southern Europe will stay sunny and dry, though a developing low pressure system will cause unsettled conditions in south-eastern regions later this week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum	Belgrade	sun	13	Cologne	drzzl	12	Glasgow	rain	12	Melbourne	cloudy	22	S. Frsco	sun	20
		Celsius	Berlin	rain	12	D' Salaam	fair	33	Hamburg	shower	11	Mexico City	sun	24	Seoul	fair	17
Abu Dhabi	fair	30	Bermuda	thund	18	Dakar	fair	26	Helsinki	snow	0	Miami	fair	28	Singapore	thund	30
Accra	fair	34	Bogota	cloudy	21	Dallas	fair	25	Hong Kong	fair	27	Milan	sun	18	Stockholm	rain	5
Algiers	cloudy	20	Bombay	fair	34	Delhi	sun	29	Honolulu	thund	27	Montreal	sleet	3	Strasbourg	fair	13
Amsterdam	cloudy	12	Brussels	cloudy	12	Dubai	fair	28	Istanbul	fair	10	Moscow	cloudy	-5	Sydney	fair	25
Athens	fair	16	Budapest	fair	13	Dublin	fair	13	Jersey	cloudy	10	Munich	cloudy	13	Tangier	fair	20
B. Aires	sun	28	C.hagen	shower	7	Dubrovnik	sun	18	Karachi	fair	32	Nairobi	fair	29	Tel Aviv	fair	15
B.ham	cloudy	14	Cairo	fair	19	Edinburgh	cloudy	13	Kuwait	fair	25	Naples	sun	18	Tokyo	fair	14
Bangkok	cloudy	35	Cape Town	fair	24	Faro	fair	20	L. Angeles	shower	19	Nassau	fair	27	Toronto	shower	8
Barcelona	sun	17	Caracas	fair	29	Frankfurt	cloudy	13	Las Palmas	cloudy	21	New York	shower	8	Tunis	cloudy	18
Beijing	fair	7	Cardiff	drzzl	12	Geneva	fair	10	Lima	cloudy	27	Nice	sun	15	Vancouver	sun	11
Belfast	rain	12	Chicago	fair	3	Gibraltar	cloudy	17	Lisbon	sun	20	Nicosia	fair	17	Venice	sun	14
									London	cloudy	15	Oslo	fair	7	Vienna	fair	13
									Lux.bourg	drzzl	5	Paris	fair	13	Warsaw	rain	5
									Lyon	fair	10	Perth	sun	36	Washington	fair	12
									Madeira	shower	18	Prague	cloudy	12	Wellington	shower	15
									Madrid	sun	19	Rangoon	hazy	33	Winnipeg	snow	-8
									Majorca	fair	19	Reykjavik	snow	1	Zurich	sun	12
									Malta	sun	17	Rio	thund	29			
									Manchester	drzzl	13	Riyadh	sun	28			
									Manila	cloudy	30	Rome	sun	16			

FINANCIAL TIMES
COMPANIES & MARKETS

Monday March 7 1994

Digital cuts 6,000 jobs in Europe

By Alan Cane

Digital Equipment, the troubled US-based computer manufacturer, is to cut up to 6,000 jobs in Europe over the next 12 months. The cuts represent about 20 per cent of the workforce and are twice as large as anticipated earlier this year.

The redundancies are key to a regeneration plan being put in place by Mr Vincenzo Damiani, who took over as head of Digital Europe in January. Letters were being sent this weekend to staff throughout Europe, explaining the rationale for the plan.

The company, once second only to IBM as a computer supplier, is suffering from declining sales and unsustainable overheads. About 50 per cent of its revenues derive from European operations and it has been hit hard by the recession in key European markets.

In common with other large computer manufacturers, Digital was slow to appreciate the importance of personal computers or to anticipate the emergence of networks of small computers as replacements for expensive, high margin, mainframe systems. The smaller systems command low gross profit margins.

For the six months to January 1 this year, Digital reported a net loss of $155.3m compared with a loss of $334.4m in the same period the year before.

Mr Damiani, formerly a senior executive at IBM, said that on arrival he had put in place project teams to analyse the company's business model. The teams had now reported and their conclusions were the basis of the decision to cut numbers from approximately 29,000 in Europe to under 25,000.

Mr Damiani said that, commercially, Digital had failed to work coherently with its business partners – software companies, syetems integrators and distributors, who sell Digital computers directly to customers and who add value in the form of special software.

The new strategy is designed to avoid competition for customers between Digital and these partners. The company's 500 key European accounts will be covered by dedicated account executives: "They will be measured on the percentage that Digital takes of the customer's total information technology spend, no matter what channel is used," Mr Damiani said.

Peruvian business to issue Eurobonds

By Sally Bowen in Lima

A coosumer goods and pharmaceuticals group plans to become the first Peruvian company for over a decade to make a Eurobond issue, marking a big step in the nation's financial rehabilitation.

The Rodriguez Group hopes to raise $40m. It will part-finance the group's $67m acquisition two weeks ago of Cementos Yura, a formerly state-owned cement producer.

Lead manager for the issue is VestcorpPartners Group, a Latin American investment bank with offices in Miami and London. VestcorpPartners is underwriting the issue and taking a 15 per cent stake in Cementos Yura.

Peru has being largely marginalised from the international financial community for 25 years, with predominantly statist and protectionist democratic governments succeeding a long period of rule by left-wing military.

But since the election of President Alberto Fujimori in 1990, it has mended its fences with international creditors. Arrears with multilateral organisations have been settled and it is following an IMF-monitored economic programme.

BAe in talks with Giat over Royal Ordnance

By Alan Cane

British Aerospace said yesterday that it has been to talks for some weeks with the arms manufacturer Giat, which could lead to collaboration in some form between the state-owned French company and the BAe munitions subsidiary Royal Ordnance.

A BAe spokesman said the talks were exploratory; no agenda or timetable had been set and there was no guarantee of their outcome. He did not rule out the possibility of a merger between Giat and Royal Ordnance, but compared the talks with the protracted negotiations between BAe and the French Matra-Hachette group, which are expected to lead to the two companies merging their guided weapons activities.

Royal Ordnance, sold to BAe by the government in 1987, is believed to be losing money in spite of extensive restructuring. It has been struggling to find export orders to offset declining defence hardware requirements in the UK. In January, BAe cut more than 400 jobs at the Ordnance's Chorley factory in Lancashire. The Ordnance now has a total UK workforce spread over 12 sites of about 4,500 compared with 16,000 at the time of the sale to BAe. A further 1,000 staff are employed in Germany

The BAe spokesman said the the Ordnance and Giat were investigating the possibility of pooling resources to improve the quality of their businesses. Both Royal Ordnance and Giat manufacture guns and ammunition. They compete in certain areas and might continue to do so even if co-operation was agreed, the spokesman said.

BAe, which reported a loss before tax of £273m ($398.58m) last month, has been refocusing on its core activities of defence and aerospace, selling off Rover Cars to BMW and also disposing of Corporate Jets and the Ballast Nedham group of construction companies.

Giat, which recorded a loss of FFr400m ($66.88m) on sales of FFr11.3bn in 1991, was transformed from a defence ministry agency to a semi-autonomous state owned company in 1990. It is one of the group of state-owned companies that the French government is anxious to privatise.

Neither Giat nor the French industry ministry were available for comment last night.

The world's leading central banks find one class of investment group almost beyond the reach of their influence. **John Gapper and Richard Waters report**

Hedge funds put G10 in quandary

On the face of it, the Group of Ten central bankers gathered in Basle today to discuss the state of global financial markets might as well not waste their breath on hedge funds. It is not only hard to define which investment funds fall into this category, but also bankers' powers to sway them are extremely weak.

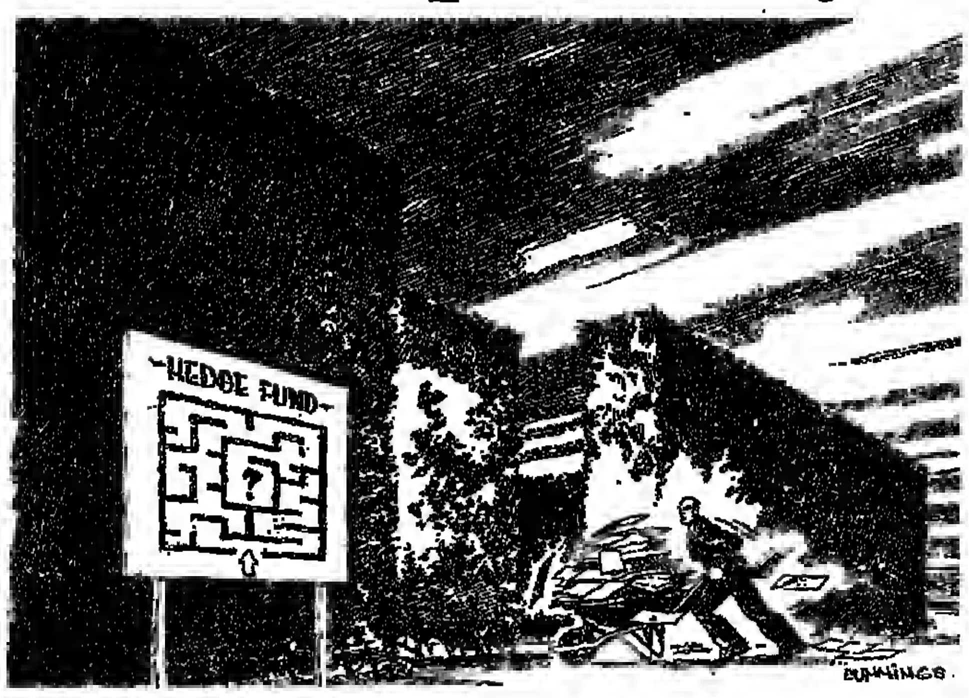
Central banks do not have the direct control over hedge funds that most of them do over banks. The funds – although mostly managed in the US – tend to be based offshore and are not supervised by bank or securities regulators. Nonetheless, the G10 central bankers have three reasons to be worried about these funds.

First, they appear to have added to volatility by selling as bets on currency, securities markets and derivatives went wrong. Second, heavy losses could make funds default on loans from banks. Third, funds that could not settle contracts might spark off a chain reaction affecting financial systems.

This combination of concern, and the inability to do much to address it, may well disquiet central bankers. The question is whether they will either try to create regulations to allow them to intervene directly, or try to exert greater indirect influence on hedge funds through supervised banks.

The first approach carries both practical and theoretical problems. In practical terms, it is hard to draw a boundary between hedge funds and other funds that manage institutional and private client money. Any change in regulations would be complex and would have to be co-ordinated across borders.

The theoretical problem is that hedge funds appear to be doing nothing wrong. Leveraging risk to make big gains in the short term, while risking sharp losses, is a common investment strategy. Regulating funds to prevent a particular trade-off between risk and reward would be heavily *dirigiste*.



This leaves central banks with the possibility of exerting indirect influence through banks. There is a promising start in that funds often leverage their capital by buying securities and derivatives in tranches, then borrowing more cash against the positions to make further purchases.

This exposes banks to credit risk, a legitimate concern of supervisors. Banks hold securities of the same value as the cash they lend, with an extra margin of perhaps 5 per cent to cover risk. Most mark the value of the securities to market each day to ensure that they are not over-exposed.

These activities are being examined by the Bank of England and the US Federal Reserve, although a director of one large UK bank says that most of such lending is done in the US. Like other corporate lending, there has been some pressure on margins as banks compete for business amid weak demand for loans.

One New York bank, which says that it only trades with hedge funds in foreign exchange markets, claims it requires a margin of 5 per cent, but that others will trade at lower margins. "Some [margins] just aren't big enough to cover the daily swings you get in today's markets," a banker says.

Volatile markets can eat up margins. Mr John Leonard, an analyst at Salomon Brothers, says that positions can move substantially overnight. "You have to be aware if a fund is heading south quickly – where is the next margin call going to come from?" says one bank's head of risk management.

Banks find it hard to assess credit risk accurately because hedge funds are not credit rated, and hold a complex range of financial contracts. Some funds also refuse to provide net asset valuations, an essential tool for banks assessing the overall health of funds as financial counterparties.

In spite of such problems, the most recent proposals on market risk by international bank supervisors could require banks to set aside less capital against hedge fund exposures. At the moment, all reductions in the value of securities held against loans to funds count as potential losses to banks.

This would change under the netting proposals issued by banking supervisors last year along with proposals on market risks. Commerical banks should in future be allowed to net off losses in the market value of securities against the extra cash margin deposited with them by hedge funds.

Bankers argue that credit risks can be exaggerated. Banks can call for extra margin payments if securities fall in value sharply, and lose only if funds fail. "This is not a credit quality issue," one banker says. "It is to do with what happens to markets if funds all head for the exit at once".

They also argue that they have been dragged into the debate illogically. "Regulation only affects people who are easily regulated, and that usually means us," a banker says. Yet no matter how clumsy the weapon, it may be the only one available if today's meeting opts to crack down on hedge funds.

Markets this week

Starting on page 22

MARTIN DICKSON: GLOBAL INVESTOR

Securities markets recovered a little by the weekend after a few days of extremely volatile trading, but the mood remains fragile, with eyes on the US Federal Reserve. Page 22

GRAHAM BISHOP: ECONOMIC EYE

Although many have written off European monetary union, the project remains alive. In the past, economic recovery has raised political spirits and spurred on integration. It could well happen again. Page 22

Bonds: Amid a "buyers' strike" in world bond markets, governments are beginning to worry about who will buy their debt as most auctions have yielded dismal results. Page 24

Wall Street: The stock market faces a quiet week, with nothing on the economic agenda to match the import of last week's jobs figures. Page 25

Emerging markets: Late last year investors in Mexican equities were awaiting the moment when the market would switch from being a Latin American to a North American one. Such a view has received a serious blow. Page 23

Currencies: Foreign exchanges expect the Bundesbank to trim the repo rate tomorrow, while US data will be watched for signs of inflationary pressures. Page 31

STATISTICS

This week: Company news

VOLVO

Silver lining to a year of drama and cost

Volvo, Sweden's biggest manufacturer, will on Thursday report its results for 1993 – a momentous year in which it forged a merger with France's Renault only to renege on the deal in December in the face of a shareholder and management revolt.

The immediate impact of the merger's collapse – and the subsequent unravelling of a three-year-old alliance between the two motor groups – will be to drag Volvo down to a pre-tax loss for the third time in the past four years. This will follow the SKr3.3bn ($410m) pre-tax loss incurred in 1992.

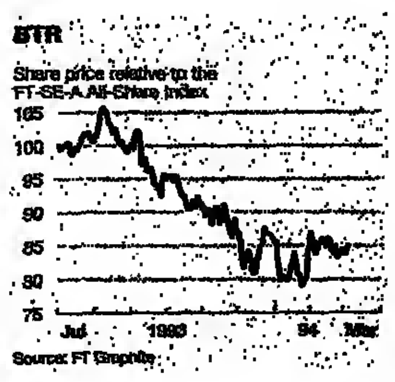
Volvo said last month, when it and Renault finally parted company, that it would write off SKr5.2bn against 1993 earnings in goodwill and provisions related to the dismantling of cross holdings in the state-owned French company.

But Volvo will direct attention towards a much more favourable underlying picture of rapidly rising profits at the operating level.

One Stockholm analyst predicts a profit before write-downs and minority items of almost SKr2.7bn. This kind of forecast has fuelled the resurgence of Volvo's share price. In Swedish eyes at least, the company threw off the shackles of a partner whose privatisation was uncertain, whose profits were sagging and whose dominance of the merged company seemed certain.

Swedish investors expect Volvo to comment on a number of favourable factors. The pay-off from the dramatic devaluation of the Swedish krona is coming through strongly, new model development costs are at a low point and sales are picking up in Sweden, the US and the UK.

But shareholders will have to wait until the annual meeting in April for answers to the more worrying question of what its long-term strategy will be now that it is without a partner in the tough motor industry world.



BTR

Uneasy questions for acquisitive animal

Why have shares in BTR, the UK industrial conglomerate, underperformed the market by about 20 per cent since last August? That question is likely to be exercising executives as they prepare to present the group's 1993 results on Thursday.

BTR warned in September of an uncertain recovery in the second half. Analysts trimmed their forecasts and now expect pre-tax profits of £1.23bn ($1.79bn) compared with £1.06bn.

But Mr Alan Jackson, chief executive, will also want to dispel some of the less tangible unease. This has encompassed everything from executive departures to Mr Jackson's sale in January of half his shares.

A more long-standing issue is the extent of BTR's reliance on acquisition accounting. BTR has used up nearly all the provisions set up when buying Hawker Siddeley, the aerospace and engineering group, for £1.5bn in 1991. Analysts will ask what provisions have been created for Rexnord, the US industrial group bought for $820m in December. Some who felt BTR might have overpaid for Rexnord will also be scrutinising its likely profit contributions, especially as the deal pushed debt-equity gearing above 90 per cent.

Perhaps Mr Jackson's main task is to reassure shareholders that economic upturn will benefit BTR as well as more obvious recovery stocks.

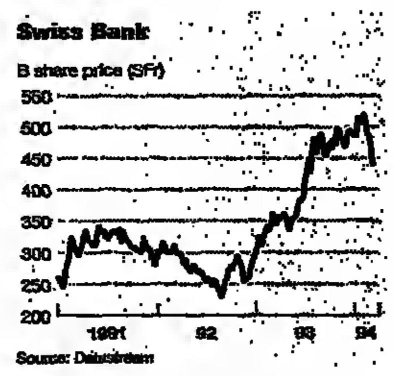
OTHER COMPANIES

SBC weighs up its rocket scientists

Investors will be hoping that the directors of Swiss Bank Corporation will explain at their annual press conference on Wednesday the 44 per cent jump in provisions last year to SFr2.8bn ($1.9bn). Of special interest is the portion paid to the former O'Connor "rocket scientists" – a team of derivatives specialists brought in from a Chicago partnership – as it will indicate how profitable SBC's highly respected derivatives business has become. SBC has already announced 1993 net income of SFr1.37bn, up 36 per cent.

■ **CS Holding:** Switzerland's largest financial group publishes 1993 results on Tuesday, and they are bound to be good. Credit Suisse, the bank which accounted for over 80 per cent of 1992 group profits, has just reported a 53 per cent jump in net income and CS First Boston, the New York investment bank subsidiary, an 87 per cent leap. The question is whether CS will be less miserly with a dividend increase than the other two big Swiss banks.

■ **Maclean Hunter:** The Canadian publishing and broadcast group is expected this week to unveil its preferred alternative to a C$2.8bn ($2.1bn) takeover bid by Rogers Communications. MH says it has lined up buyers or partners for each of its three main businesses: printing and publishing, US cable-television and Canadian cable. But it has yet to show its hand. Shareholders have until March 15 to respond to Rogers' C$17-a-share offer.



■ **Valeo:** The French car components group will announce 1993 results tomorrow. The company has already indicated that sales fell by 3 per cent to FFr20bn ($3.3bn), demonstrating some resilience to the downturn in the European motor industry.

■ **EuroDisney:** The leisure group and its US parent Walt Disney are braced for another week of meetings with representatives of EuroDisney's creditor banks over its financial rescue. On Friday the banks urged Disney to make concessions in its financial relationship with EuroDisney.

■ **Japanese steel:** Nippon Steel, NKK, Kawasaki Steel, Sumitomo Metal Industries and Kobe Steel, are this week expected to revise down their forecasts for the year about to end, due to the prolonged downturn.

Companies in this issue

Westland hits out over orders

By Tim Burt

Westland, the helicopter manufacturer, yesterday claimed GKN was trying to undermine its order prospects as part of its £496m hostile takeover bid.

The Yeovil-based company accused Sir David Lees, chairman of the engineering and industrial services group, of exploiting extracts from its defence document to persuade shareholders that most of its orders could he cancelled or postponed.

It was respooding to an opeo letter from Sir David, whicb which attempted to play down hostility between the two companies, but went oo to describe the group's prospects as speculative and uncertain.

Mr Alan Jones, Westland chairman, said: "He knows our prospects are strong. He is raising questions over orders and wants our shareholders to sell at a discount – that's certainly bostile."

GKN, which already cootrols 45 per ceot of Westland, has offered shareboiders 290p per share – a discount of almost 12 per cent to Friday's 329p closing price.

Mr Jones also dismissed an offer by GKN to alter the terms of a potential compensation package to Wastland shareholders arising out of a damages claim against tbe Arab Organisatioo for Industrialisation.

Under its original offer last month, the engineering group promised a partial pay-out should Westland receive more than £82m in damages from the AOI, which has been ordered to pay £385m over cancelled helicopter orders.

GKN has now reduced the threshold for a share-out of any damages to £65m, reflecting the £25m – some £17m after tax – which Westland has already received in partial compensation.

Although GKN admitted the revised terms "do not materially change the offer", Sir David said: "Our offer price of 290p plus the AOI entitlement is a very fair one which properly reflects the prospects for Westland."

Sir David Lees is meeting executives from Standard Life and Scottish Widows in Scotland today. These together control 5.5 per cent of GKN and hold small stakes in Westland.

His efforts, bowever, are expected to concentrate on M&G and Schroders, which hold more than 25 per cent of the helicopter company. The two companies are also the largest institutional shareholders in GKN – together controlling 9.5 per cent.

Support from either gronp would secure Westland for GKN.

QMH has big proxy vote in its favour

By Maggie Urry

Queens Moat Houses, the hotel group, is understood to have substantial proxy votes in favour of resolutions to be put at two extraordinary meetings tomorrow.

If the resolotions, which confirm the group's £2bn borrowing limit, are not passed the company will not be able to continue trading.

Shareholders are unlikely to receive any new information about progress of financial restructuring, disposals or current trading. The group should soon receive the latest property valuation, which will be incorporated in the 1993 accounts.

However, some holders may use the the meeting to raise other questions. Mr John Bairstow, former chairman, said last week that the resolntion being put should be divided into two.

The first approving the borrowiog limit and the second releasing present directors from any liability caused by the error which called the borrowing limit into question.

Mr Bairstow said if the resolution was in two parts then shareholders could vote on each issue separately.

QMH dismissed his suggestion yesterday, saying that the two parts of the resolntion were "inextricably linked".

The second meeting is for holders of the 7 per cent convertible preference shares who were mistakenly excluded from voting on borrowing powers at annual meetings.

Shareholders may also ask who was responsible for the oversight which necessitated the meetings.

The problem dates back to 1989 when the preference shareholders were first omitted from voting on a change of borrowing powers.

Ladbroke goes back to casinos after 14 years

By Tim Burt

Increased demand for gambling has prompted Ladhroke, the hotels, betting and home improvement group, to consider relaunching its casino business for the first time in more than 14 years.

The company, which last week reported a 21 per cent fall in pre-exceptiooal profits to £117.5m, hinted yesterday that it was keen to exploit the success of the gaming industry, particularly in the US where it earns more than $10bn a year.

Plans to revive the division would mark Ladbroke's first return to casino operations in Britain since 1979, when it was ordered to surrender three licences following legal action about the way it tried to win business from rival companies.

"We are looking at expanding our interests in gaming around the world, and that includes the UK," the company said.

Peter George: US gaming pulls in more than $10bn a year.

A return to casino operations is expected to begin in the US where Ladbroke bas been awarded gaming liceoces in four states: California, Texas, Pennsylvania and Michigan.

"The US is the higgest growth market, and we'd like to see significant growth out of casino and gaming operations there," the company added.

The proposals are thought to have been encouraged by Mr Peter George, Ladhroke's recently-promoted chief executive, and Mr Mike Smith, the former head of bookmaking at William Hill – who is joining the group shortly as head of gaming operations.

Mr George, a former managing director of the company's racing operations, is said to have sanctioned the move following his appointment in January and the retirement of Ladhroke fouoder Mr Cyril Stein.

The company's renewed interest in casinos has emerged within days of it admitting that trading conditions at its Hilton International hotels subsidiary remained difficult and that product cutbacks were necessary ot Texas Homecare, the DIY chain.

600 Grp to launch new lathe range

By Andrew Baxter

600 Group, the manufacturer and distribotor of machine tools and materials handling eqoipment, will oext mooth launch a new range of low-cost Colcbester lathes specially designed for small engineering companies.

The launch is an important move for 600 Group. Within two to three years, it bopes to be producing several bundred of the new Tornado machines each year from its 600 Lathes plant in Heckmondwike, West Yorkshire.

The three oew machines will be priced from £34,950 to £47,950 in the UK, and could add £5m to 600 Group's profits withio a few years, said Mr Colin Gaskell, managing director.

In the year to March 1993, the company incurred pre-tax losses of £2.4m.

The launch follows a two-year, £500,000 development programme and a market research exercise among 3,500 small engineering companies worldwide to assess their needs for CNC (compoter numerical control) lathes.

Robert Wiseman Dairies likely to have £60m value

By James Buxton

Robert Wiseman Dairies, the Scottish milk company which coocentrates on supplying branded milk in cartons to stores in Scotland, is coming to market towards the eod of this month via an institutional placing by Panmure Gordon which is likely to value the family-owned company at about £60m.

The placing should raise between £15m and £16m, leaving 75 per cent of the company in family hands.

It comes to the market at a time of big changes in the UK milk industry. Later this year the governmeot intends to abolish the milk marketing boards, which have a monopoly on buying milk from farmers. Dairy Crest, the milk processing and supply subsidiary of the MMB in England, is also likely to be floated.

Whereas in England oearly 60 per cent of milk is still delivered to the customer's doorstep, in Scotland most people buy it from a supermarket or corner shop. Early recognition of the trends which produced that state of affairs lie behind Wiseman's fast growth. It is now expanding in northern England, where doorstep deliveries are also in decline.

Wiseman, as a traditional dairy company which processed and delivered milk to the doorsteps around Glasgow, became convinced by the late 1970s that doorstep delivery was dying out.

"Increasingly the Scottish housewife was going out to work, leaving home before the milkman had come, and found it easier and cheaper to huy milk at a shop," says Mr Alan Wiseman, the 43-year-old executive chairman. He and his brother, Robert, run the business which was founded in the late 1940s by their father, also called Robert.

Wiseman decided to concentrate on the wholesale market, and invested to systems for providing milk in non-returnahle containers to supermarkets such as Asda and Tesco under their own labels. However, this meant that Wiseman's own identity was disappearing, so in 1989 it launched its own brands of liquid milk and put its hlack and white logo on its cartons and big trucks.

Wiseman claims to have 22 per cent of the Scottish milk market and to be its second largest processor and supplier, coming after Scottish Pride, the Scottish Milk Marketing Board's offshoot. More than half Wiseman's milk goes out under its own brand.

Its doorstep deliveries are franchised to self-employed milkmen. The proportion of Scottish milk delivered door to door is now only 22 per cent, having fallen from 44 per cent in 1983.

In England that proportion has declined from 86 per cent in 1983 to 58 per cent last year.

Wiseman's turnover grew by 44 per cent between 1991 and 1993, when it reached £46m. Pre-tax profits in 1993 were £3.3m. Turnover for the year to March 31 1994 is expected to be about £60m and pre-tax profits to be about £4.5m.

Last year the chairman and his brother were paid £885,000 in salary and bonuses, making them among the best paid directors in Scotland. But the way they are remmerated will change as the company is restructured for flotation.

Interest deferral hits Heron shares

By Maggie Urry

Prices of Heron International's bonds and shares fell on Friday after Thursday night's news that bondholders would he asked for a three-month deferral of interest payments.

The securities were issued as part of last September's £1.4bn restructuring. The seolor bonds, which had been quoted at 68-73 per cent of par value, fell oo Friday to 60-65 per cent, while junior bonds fell from 20-25 per cent to 12-17 per cent. The shares fell from 14p-19p to 8p-13p.

The main cause of the proposed interest payment delay is the substantial fall in Spanish property values.

The interest payments were largely dependent on the sale of some of the Heron head office division's Spanish properties.

Heron, Mr Gerald Ronson's property group, also said that it would put proposals to bondholders converting a portioo of the senior bonds into a new deht instrument which could convert into equity. Heron said it could no longer predict with any degree of prudence thet the senior bonds would be repaid in full.

Mr Ronson, whose shareholdings including his family and charitable trusts fell from 100 per cent to 5 per cent under the restructuring, is now less likely to achieve the maximum shareholding under the management incentive plan.

That would have given Mr Ronson 85 per cent of a 25 per cent stake in the group if the senior and junior bonds been repaid in full by March 31 2000 and the net asset value of the group exceeded £210m at the same date.

IN BRIEF

COLORGEN: Pre-tax profits $12,000 (£8,200) for half year to December 31 against $9,000. Sales amounted to $7.33m ($5.91m). Earnings unchanged at 0.1 cents per share.

GUINNESS is buying up to 1.41m further shares in Grenada Brewing at EC$2.3 (57p) from the government of Grenada, increasing its holding from 22 to more than 51 per cent and the value of its investmeot in Grenada to nearly £1.5m.

MINMET has signed a provisional agreement to acquire up to 75 per cent of Bia, a Russian joint stock company which has the mineral rights to a significant deposit of Wollastonite in the Altai Repuhlic of south western Siberia.

NEEPSEND is selling land at Penistone Road, Shaffield, to Tesco for £400,000 cash, payable on completion on March 23. The land is sold subject to a restrictive covenant preventing its use other than as a car park. The book value of the land is £625,000. Proceeds will be used to cut borrowings.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Telefonica de Espana (Spain)	CPT/Entel (Peru)	Telecoms	£1.34bn	Success for privatisation package.
Hollinger (Canada)	Sun-Times (US)	Publishing	£121m	Urban market move
St George Bank (Australia)	Unit of Barclays (UK) (UK)	Banking	£94m	Strategic retail divestment
Teck Corp (Canada)	Nunachiaq (Australia)	Mining	£69m	MIM sells its half
Heineken (Netherlands)	Zywiec (Poland)	Brewing	£27m	Agreed 24.9% stake
English China Clays(UK)	Kost Brothers (US)	Building materials	£21.5m	Strategic cash buy
Smith & Nephew (UK)	BSN B Braun-S&N (German)	Healthcare	£1.9m	Buying outstand ing 50%
Electrocomponents (UK)	Radio Spares Components (NZ)	Electronics	£1.6m	Cash transaction
ABC (US)	Unique Broadcasting (UK)	Broadcasting	n/a	Taking minority stake
Bertelsmann(German)/ Canal Plus (France)	Joint venture	Broadcasting	n/a	Developing relationship

Astra calms health fears over its anti-ulcer drug

By Hugh Carnegy in Stockholm

Aatra, the Swedish pharmaceuticals group, yesterday insisted there were no scientific grounds to justify a threat by the German authorities to bar an intravenous application of its anti-ulcer drug Losec, the company's biggest-selling product and the world's fifth-largest selling prescription drug.

News that BGA, the German health agency, was considering withdrawing epproval of the intravenous injectible form of Losec on the suspicion that it was linked to hearing and eye disorders sent Astra's share price lurching downwards by 7 per cent on Friday. Astra A shares recovered later to end the day down 3 per cent at SKr171, but the company will be watching anxiously today to see if investors react further.

The German action followed the appearance of vision and heering impairments in patients being treated intravenously with Losec for bleeding ulcer conditions. The BGA said it was concerned that omeprazole, the active substance in Losec, caused the condition. In e letter to Astra, the agency gave the Swedish company three weeks to respond.

Mr Staffan Ternby, investor relations chief et Astra, said the company had been aware of the problems in the bleeding ulcer petients since last eutumn. investigations by the group and by outside specialists had since found no evidence to link Losec to the conditions, he said. Astra believed they were caused by the underlying disease affecting the patients, not the drug.

"We are confident we can show scientifically that there is no connection. We are not too worried by this letter from the German authorities," he said.

Intravenous injection accounts for only e small percentage of Losec sales. But total sales of the drug were SKr127bn ($16.1bn) in 1993.

Bronfman shares lifted by stake speculation

By Bernard Simon in Toronto and Matthew Curtin in Johannesburg

Share prices of companies controlled by Toronto's Bronfman family jumped late last week in the wake of reports that Anglo American of South Africa was negotiating to acquire a large stake in the Canadian resources, real estate and financial services empire.

Anglo American and the Bronfman group declined to comment, which suggested that the South African conglomerate might invest an initial C$300m (US$227m) in one of the Bronfmans' top holding companies.

Anglo, through Minorco, its international resources arm, is said to be interested in Noranda, the Toronto-based mining, forestry and energy group. Noranda shares gained C$1.25 last week to C$26.25.

Mr Alf Powis, Noranda's chairman, said that "there have been conversations between the [Bronfman] group and Anglo American."

However, Mr Powis said he was under the impression that the contacts had been terminated.

VW builds a platform for growth

Kevin Done looks at the German carmaker's rationalisation plans

Volkswagen'e radical plan to rationalise its new product development end engineering operations is important for the group's chances of achieving long-term profitability.

The strategy calls for a reduction in the number of the group's basic car chassis platforms from the present 16 to four by the early years of the next decade.

"It will take seven, eight or nine years to complete," says Professor Ulrich Seiffert, VW research and development director and chairman of the group product strategy committee.

The present "platform confusion" results from the historical development of the group, he says, although he admits thet earlier managements of which he was part had been too weak in failing to rationalise the group's sprawling product range.

"In e world of shrinking engineering capacities but global operations, and with the the opening of previously closed markets, there is a need for a new strategy," he says.

While VW has introduced new technology and platforms for its mainstream models, such as the third generation VW Golf launched in the eutumn of 1991, it has left earlier generation models in production at overseas plants.

Mr Ferdinand Piëch, the controversial chairman of the VW group management board, who is leading a ruthless corporate revolution at Europe's biggest carmaker, is adamant that this wild proliferation must be controlled. The group's future product development will be streamlined.

Prof Seiffert, who was demoted from the VW group board in one of Mr Piëch'e early purges of top management last year only to be reinsteted on the hoard lest autumn, is the man appointed to lead the implementation of the new platform strategy.

He is introducing e stretegy in whicb there will be only one lead developer in the group for each of four basic platforms, but there will be several users of each platform, which will develop their own distinctive models under their own brand-names.

"Under the skin" models off one platform will be largely identical with many shared components, but the parts of the car visible to the customer – for example body styling or interior trim – will differ.

"There are a lot of parts that we can make identical for all cars from one platform, the ABS braking system, the air-conditioner, water pumps, airbags or fuel injection nozzles. You can standardise. No one is interested if the airbag inflator comes from one company or another. The customer only wants it to work," says Prof Seiffert.

All of the four platforms will be designed and developed in Germany, two by the Volkswegen division and two by Audi. Derivatives may then be developed by any of the four brand-name divisions.

Volkswagen will develop the AO small car (Polo) and the lower-medium (Golf) A platforms, while Audi will develop the executive car B platform and the luxury car D platform.

The AO small car platform will be the basis for the new generation Polo to be launched in the eutumn, but it will also spawn the replacement for the Skoda Favorit, and the next generation Seat Ibiza. The A platform will he the basis for the next generation Golf but also for e small Audi, for the Seat Toledo replacement and a new product range for Skoda.

Prof Seiffert defines e car platform to include the drive train from radiator and fan to the engine and engine mountings, fuel lines, gearbox end gear shift, steering column, fuel tank, brakes and cables, exhaust system, front and rear axles, foot controls and wheels.

For each platform these will be common, he insists. The differentiation will come in body styling, the dashboard, the seats, the bumpers – "everything above the floor pan and the drive train".

He claims that 55 per cent to 60 per cent of the whole development cost for a new car is in the platform. This is where he hopes the savings will come. The platform leader may have 10 per cent more costs, but all the platform users will be saved the entire pletform development cost.

The gains Prof Seiffert promises to reap for the group will be:

- Increased flexibility and transparency between plants producing derivstives of the same pletform. Production could be switched more easily between plants. "We will be able to compare plants world-wide, there will be no discussion any more of the contents of the cars."
- Greater certainty in the start-up phase of new models with shared parts and systems.
- Lower purchasing costs for components because of much bigher purchasing volumes and improved cbances for global sourcing. The new Golf A platform with its derivatives could be produced in a volume of 1m-1.5m units e year.

Sime Darby profits rise 12%

By Kieran Cooke in Kuala Lumpur

Sime Darby, the Malaysian-based conglomerate which claims to be south-east Asia's biggest multinational, has announced pre-tax profits for the six months to December 31 1993 of M$420m (US$150m), a 12 per cent rise on e year ago.

Group turnover was up 18 per cent to M$3.9bn. Sime Darby, once plantation based, is involved in s wide range of ectivities including motor vehicle assembly, the oil and gas industry, heavy equipment franchises, property and, most recently, the power sector.

Sime's operations in Hong Kong, where it is the main automotive and heavy equipment distributor, contribnted most to overall group profits through activities in Malaysia, particularly in the fast expanding infrastructure sector.

Pre-tax profits on Hong Kong operations increased to M$95m from M$72m in the six-month period compered witb the equivalent period in the previous year. Pre-tax profits on Malaysian operations went up to M$94m from M$79m.

Pre-tax profits were generally unchanged across most other divisions of the company although there was a steep fall in profits in the plantations sector.

ICI, Amoco in China $6m polyester venture

Imperial Chemical Industries of the UK and Amoco of the US have each taken strategic stakes of 2.5 per cent in the Yizheng Chemical Fibre Company, China's biggest polyester producer, which is being floeted on the Hong Kong stock exchange. The stakes are worth US$6m apiece.

Yizheng is claimed to be the world's fifth biggest polyester producer. Mr Alan Spall, ICI's finance director, said the company was a large customer. "We are talking about a number of things we might do together," he said.

ICI, which got rid of its fibres operations in the 1980s, said it did not intend to re-enter the fibres market, However, it recently completed a £150m ($226m) plant in Taiwan making terephthalic acid (TPA), a raw material for polyeeter manufacture.

Generali premium income rises 13.5%

Aggregate premium income et Generali, Italy's biggest insurance company, rose 13.5 per cent to L19,200bn ($11.3bn) in 1993 after e further strong performance from its joint venture in Spain with Banco Central Hispanoamericano, according to preliminary results, writes John Simkins in Milan.

Generali said the parent company's net profits, which will be revealed after e board meeting in early May, were expected to show an improvement on the L389.8bn in 1992 in spite of a heavier tax burden. The parent company premium income wes L9,550bn, an increaee of 8.4 per cent. Adjusted for currency factors, the rise was 4.3 per cent.

Improvement at Lend Lease

Lend Lease, the large Sydney-based property and financial services group, reported net operating profit of A$118.9m (US$85m) for the six months to end-December, up 7 per cent on tbe year-ago figure, writes Nikki Tait in Sydney.

The increase was held back by e doubled tax charge. At the pre-tax level there was e 17 per cent rise, to A$144.5m.

Meanwhile, Lend Lease confirmed it was considering e bid for the State Bank of New South Wales, Australia's fifth largest bank and in the process of being privatised via e trade sale by the state government.

HK mass transit group jumps 82%

Hong Kong's Mass Transit Railway Corporation (MTRC) has reported an 82 per cent surge in profits to HK$735m (US$95.4m) for the year to December 31 1993, compared with HK$403m in 1992, writes Louise Lucas in Hong Kong. The company attributed the rise to increases in fares and numbers of passengers, together with lower interest rates on borrowings.

Mr Hamish Mathers, chairman, said sources of recurring income rose 13.4 per cent to HK$4.53bn. MTRC's borrowings at the year-end stood et HK$18.59bn. During the year, new committed facilities of HK$3.98bn were arranged.

Strong advance at Telekom Malaysia

Telekom Malaysia, the partially-privatised telecommunications utility, has announced pre-tax profits of M$1.5bn (US$536m) for calendar 1993, e 20 per cent rise on the previous year, writes Kieran Cooke in Kuala Lumpur.

The Malaysian government floated 25 per cent of Telekom on the Kuala Lumpur stock exchange in late 1990 and the utility is the second largest listed company on the market.

Mr Rashdan Baba, Telekom's executive chairman, said he expected Telekom's customer base to expand by between 13 per cent and 15 per cent over the next few years.

"I believe our profits are a reflection of the scope of the market for telecommunications in Malaysia and, we'd like to think, management's ability to manage the business for commercial success," he said.

Telekom said operating revenue increased 15 per cent to M$3.9bn in 1993 while expenditure increased by 12 per cent.

The Markets

THIS WEEK

Global Investor / **Martin Dickson in New York**

Waiting for Mr Greenspan

Global securities markets recovsred a measurs of poise by ths weeksnd after an extrsmely volatile few days of trading, but the mood remains fragile and dependent in no small measure on the actions, or lack of them, of the US Federal Reserve.

Much of Wall Street is expecting Mr Alan Greenspan, the Fed chairman, to follow up last month's 25 basis point increase in the Fed funds rate with another 25 point move during the next few weeks, possibly accompanied by a 50 point rise in the psychologically important discount rate, which acts as a floor for the US interest rate structure.

The Fed's February tightening, which Mr Greenspan presumably hoped might stabilise the Treasury bond market, in the event sowed inflationary anxiety and sent US bond prices sharply lower.

Against this background, and statistics showing buoyant US consumption the Fed is expected to reinforce its inflation fighting credentials. A move could come as soon as this week or about the time of its policy-making Open Market Committee meeting, towards the end of March.

A Fed move is so widely sxpected thet it is already largely factored into Treasury prices, but tha market could still take fright again, particularly if a rise were linked to s specific piece of economic news with worrying inflationary implications, rather than presented as part of a planned strategy to prolong the current economic expansion.

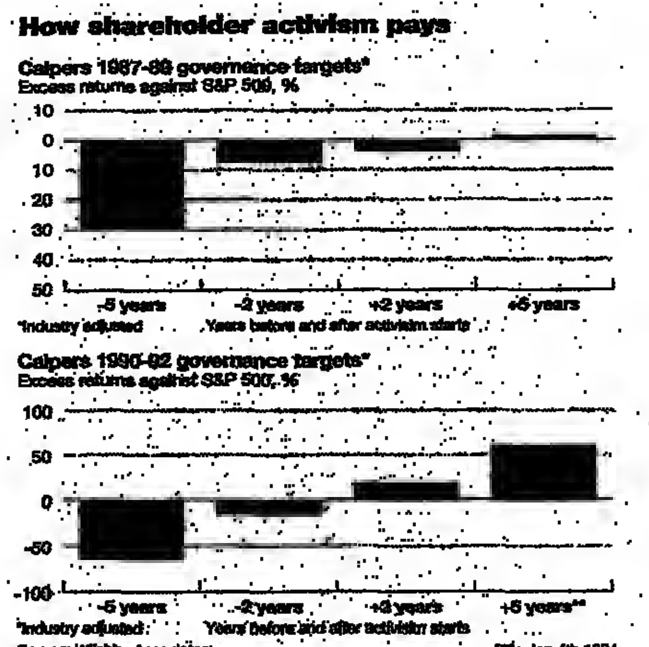
Take, for example, the market's behaviour last Friday morning, when the headline statistics for February employment were much stronger than expected, and bond prices fell sharply in anticipation of a mid-morning tightening by the Fed which never materialised.

Closer examination of the data convinced economists that the figures pointed, if anything, to slower rather than stronger growth, and the benchmark 30-year issue ended the day up $\frac{1}{16}$ for a yield of 6.829. With US inflationary pressures still modest, the market looks oversold on fundamentals, but it may take some very adroit presentation by Mr Greenspan to convince Wall Street of that, at least in the short-run.

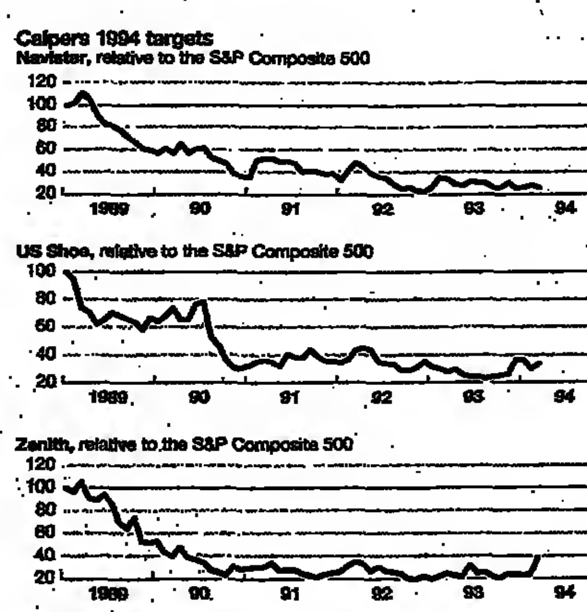
The manner of a Fed move also has important implications for European bond markets, which so far have been unable to decouple themselves from falling prices across the Atlantic. Last Wednesday Europe was given an excuse for market turmoil of its own with figures showing the most explosive growth in German money supply since unification in 1990, raising fears that the Bundesbank will move even more cautiously in cutting German rates.

The figures were distorted by numerous special factors and tomorrow's German labour market report will underline the delicate state of the economy. Even so, further significant rate cuts by the Bundesbank – the key to a bond market rally across Europe – still seem some way off.

How shareholder activism pays



Source: Wilshire Associates **To Jan 4th 1994



Source: FT Graphite

■ Recovery stocks

The volatility in global stock prices since the Fed's February move has analysts divided as to whether a short, sharp and much needed correction in equities is under way, or whether this is the start of a creeping bear market which could see a slow, relsntless decline in valuations as small US investors who have plunged into mutual funds switch out again.

What havens are there in such an uncertain climate? One possihility is sectors which have traditionally outperformed at this stage of the economic cycle, and in the US that means capital goods and basic industries. Another alternative is recovery stocks – poor performing companies whose fortunes are being transformed.

In ths US, investment in recovery stocks has become entwined with the corporate governance movement – the trend for certain public pension funds and private investment groups to pnt very direct pressure on companies to improve their performance.

The main focus of these campaigns is the company annual meeting season, generally known as the proxy season, which is just about to begin. In the months preceding the meetings, investors and managemsnts go through an elaborate game of carrot and stick, with the shareholders threatening to put embarrassing resolutions on ballot papers.

Several leading fund managers have developed sophisticated screening processes to identify dogs, while the Council of Institutional Investors, an umbrella gronp, has produced a list of 50 poor performers for use by its members.

A recent study by the pension consulting firm Wilshire Associates of investment results by The California Public Employees' Retirement System, Calpers, probably the most activist large investor in the US, gives powerful support to the idea that corporate govsrnance activism can pay big dividends.

■ Beating the S&P

Wilshire looked at the returns to shareholders of 42 companies targeted by Calpers between 1987 and 1992. This group significantly underperformed the Standard & Poors 500 index of leading stocks in the five years before Calpers targetted the companies. However, in the five subsequent years they showed a 41 per cent excess return over the S&P. Adjusting for special industry factors, the return was 36.6 per cent. Wilshire then broke the companies down into two groups (see chart above) – one targeted by Calpers between 1987 and 1989, when its shareholder activism was limited to general issues of corporate governance, such as the anti-takeover devices installed by companies. That group showed little improvement relative to the S&P 500. The second group consists of those targeted by Calpers between 1990 and 1992, after it changed its policy to one of actively seeking to improve a company's financial performance hy sngaging in a dialogue with its management. The companies handsomely outperformed the S&P.

Similar evidence comes from Lens, a small fund management group set up by Mr Robert Monks, one of founders of the shareholder activist movement, to take stakes in poor performers and pressure their management into changes.

Lens takes a more adversarial approach to management than the large pension funds. It initially targeted four companies – Sears Roebuck, Eastman Kodak, Westinghouse and American Express – all of which suhsequently went through boardroom upheavals mainly because of shareholder pressure.

In its first year to last July, Lens' investments in the four companies returned 26.1 per cent, compared with 7.2 per cent for the S&P 500.

■ Piggybacking

Of course, few investors have Calpers ability to concentrate the minds of under-performing managers. But others can piggy back on their efforts by investing in the same stocks.

Calpers has selected 10 companies on which it will focus attention in the 1994 proxy season. They include three it targeted last year but are still underperforming – paper company Boise Cascade, IBM and Westinghouse Electric.

The other seven include two photographic companies, Eastman Kodak and CPI; chemicals group First Mississippi; Navistar International, the truck manufacturer; US Shoe, a footwear and clothing retailer; USX-Marathon, an energy company, and Zenith, the television manufacturer. Lens Fund, which claims to differ from large institutional funds in targeting not just under-performers, hut companies where it feels strong activism can make an important difference, is invested in Westinghouse, engineering group Stone & Webster, Scott Paper and Borden, the troubled food group which has just shaken up its top management.

So far, the US funds have limited their lists of under-performers to the US market. But American institutional shareholders are beginning to raise awkward questions about corporate governance at annual meetings of foreign companies, and it is only a matter of time before they start demanding explanations for poor performance from European and Japanese boards.

Total return in local currency to 3/3/94

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.06	0.04	0.12	0.12	0.15	0.10
Month	0.27	0.19	0.51	0.54	0.70	0.45
Year	3.44	3.09	7.00	9.31	10.81	6.63
Bonds 3-5 year						
Week	-0.49	-1.17	-0.37	-0.82	-0.94	0.13
Month	-1.99	-1.82	-1.79	-2.27	-2.42	-1.76
Year	3.01	4.30	7.39	12.12	20.44	7.82
Bonds 7-10 year						
Week	-0.77	-1.86	-0.93	-1.49	-1.79	-0.22
Month	-3.65	-2.56	-3.88	-3.78	-5.23	-4.68
Year	3.12	4.03	6.88	13.63	27.48	10.11
Equities						
Week	-0.3	-0.4	-2.4	-0.3	-0.9	-0.5
Month	-3.5	-0.7	-5.4	-4.8	-3.5	-6.4
Year	5.5	27.0	20.7	21.3	25.4	17.8

Best performing stocks from FT-A World Indices in local currency to 3/3/94

	Close	Week	Month	Year
		% change		
Tasman Prop. (N.Z.)	0.05	25.0	0.0	-50.0
Nokia Pfd (Fin)	377.00	22.0	9.9	242.7
Kidston Gold (Aus)	3.54	19.6	18.0	98.9
Nokia Ord. (Fin)	375.00	19.0	9.6	217.8
Moulinex (Fra)	149.00	16.6	16.1	43.1
Gencor (S.A.)	9.60	15.7	15.0	72.0
Fujita Tourist (Jap)	2,430.00	16.2	20.9	25.9
Royal Co. (Jap)	1,400.00	13.8	2.9	48.1
Anglo American (S.A.)	212.50	13.3	2.2	124.9
Crownx (Can.)	17.00	13.3	7.2	195.7

Source: Cash & Bonds – Lehman Brothers. Equities - © NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

Economic Eye / **Graham Bishop**

EMU is still alive

The emotion and heat of the Maastricht ratification process has faded. Many politicians and market participants alike have written off Economic and Monetary Union. That judgment may be too hasty.

Financial markets – liberalised by the Single European Market – have already created such convergence of long-term interest rates among a core group of EU members that no trend divergence in exchange rates is discounted: a de facto EMU of the few.

A wave of elections will roll across Europe in the next two years. The newly elected governments will have to strike a delicate balance between their political ambitions for further integration and economic constraints. When the next Intergovernmentel Conferencs (IGC) starts in 1996 there will be a formal constraint on them: will the Maastricht criteria to permit tha start of EMU be satisfied?

The criteria were explicitly designed to promote price stability but there was an implicit strategic purpose: to minimise the risk that financial instability could spill over into the political arena.

Yet the opposite has happened. Policy and financial markets have become increasingly entwined. In 1992-93, financial markets – liberalised by the single market – demonstrated their power to discipline policy by shifting capital, prompting the upheavals in the ERM.

However, recognising the apparent contradiction of increasing their own exposure to mobile capital, policy makers are, reluctantly, accepting the importance of markets by emphasising that economic stability includes low long-term interest rates. Thsy should complete the U-turn and recognise the significance of two clear messages from the financial markets:

● The remarkable convergence of long-term interest rates in some EU members since the ERM collapse implies that monetary union would run with the grain of markets.

● Nominal bond yields, that were recently close to post-war lows in many countries, imply that the purchasers of government debt do not feel that public deficits are excessive amid deep recession and with inflation heading for 30-year lows.

As the 1996 IGC assembles, the European Commission and the European Monetary Institution (EMI) will examine compliance with the Maastricht convergence criteria, which cover four main factors: inflation, long-term interest rates, exchange rates and public finances.

Inflation prospects suggest 10 states should pass that test. The same states had met the interest rate criterion before the February collapse in bond markets.

The ERM test – respect the "normal fluctuation margins for two years" – has a different quality now that the margins appear likely to remain at 15 per cent. The ERM criterion will become a simple test of whether exchange rate fluctuations have been minimal.

As these criteria seem likely to be met, the state of public finance will be the key. The judgment required that "The Council shall ... decide after an overall assessment whether an excessive deficit exists" – will be highly political. That decision may be foreshadowed by the review, later this year, of the member states' convergence programmes: will their "planned deficits" for 1996 be acceptable?

That is the test where the reality of the market should intrude. If the capital flows of 1992-93 are any guide, tha market will discipline states for whom EMU is unrealistic. Those states that are genuinely convergent will be presented with a de facto EMU.

The political judges should toughen the standard applied to long-term interest rates – both to absolute levels and convergence – when deciding whether a deficit is excessive. Both tests would reinforce the role of the market's judgment on whether a budget deficit above 3 per cent is genuinely excessive in the sense that it threatens stability. It is bond holders that will pay the penalty most rapidly if the judgment turns out to be wrong.

That is why the market will react so powerfully. Such an approach could help to depoliticise the most crucial judgment in the decision to move to Stage Three of EMU, which would involve locking exchange rates together as a prelude to a single currency.

EMU is unlikely to get star hilling on the political agenda until well into next year – at least until tha German parliamentary, and probably French presidential, elections are out of tha way. And they are not tha only elections: in the next two years nearly 70 per cent of EU electors will go to the polls. So most of tha polliticians who sit down at the 1996 IGC will have a fresh democratic mandate. The electoral cycle may mesh with a recovery in the economic "feel-good" factor (see chart).

Historically, an upswing in Europe's economy has raised political spirits – spurring another leap forward in integration. On the EEC's 25th birthday in 1982 when "Eurosclerosis" feeling was at its most virulent – the Community was regarded as politically dead. Yet political vision was restored as early as December 1982 when the heads of government accepted the concept of tha Single European Market – opening the way to an irreversible liberalisation of Europe's markets.

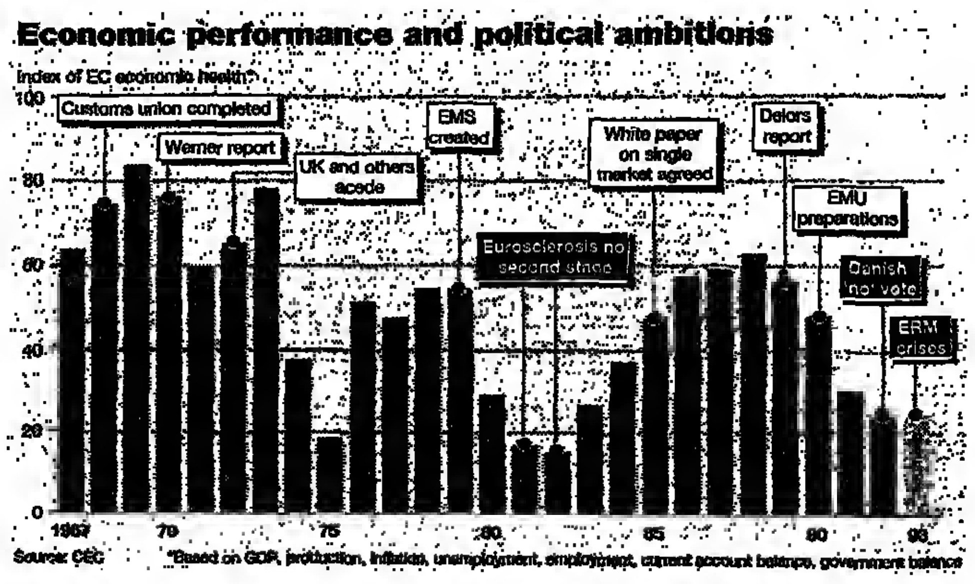
1996 could prove to be another momentous year. An EU already enlarged by the accession of several Efta members will be acutely aware of tha need to reform its system of political institutions. Germany is likely to push for the goal of political union, perhaps stimulated by unease over dsvelopments in Russia. A touchstone of the commitment to deeper co-operation will be the willingness to honour existing egreements – just when economic convergence under the Maastricht timetable is being examined.

The governments which the financial markets have already pushed into de facto EMU should be able to avoid an excessively legalistic interpretation of the criteria. As economies improve there will be a powerful incentive for states on the borderline of participation to redouble their efforts to join.

Those in power at the time may feel the issue should be postponed despite the risk to the members of the core group that an external shock could trigger a tidal wave of capital flows. Investors should reckon on a significant probability that EMU is alive and will kick into operation this century – and not exclude the possibility that it could start on schedule in 1997.

Graham Bishop is Adviser on European Financial Affairs to Salomon Brothers, London.

Economic performance and political ambitions



Source: CEC *Based on GDP, production, inflation, unemployment, employment, current account balance, government balance

The Emerging Investor / **Stephen Fidler and Damian Fraser**

Shock waves hit the Latin markets

What is the definition of an emerging market? A market that you cannot emerge from in an emergency.

The euphoria that greeted the new year in emerging stock markets has been punctured. The flows of foreign money that had sustained record share prices have slowed considerably or gone into reverse since the rise in US interest rates a month ago

The hardest hit markets in Latin America have been those where foreign participation has been highest. Mexico, Chile and Argentina – where foreign participation is estimated at between 70 per cent and 80 per cent of the market – have fallen between 7 per cent and 13 per cent in a month.

Mr Geoffrey Dennis, head of emerging market research at Bear Stearns in New York, believes the Latin markets are suffering shock waves from the corrections in the US stock and bond markets.

Once sentiment turns in favour of the US markets, the smaller markets will see foreign buyers return.

The emerging markets fall harder than most mature markets for a variety of reasons. Trading volnme there has increased from \$300m to \$400m a day, but most of that is concentrated in a few stocks.

When the market is falling, many investors find it difficult to sell fast. The limited role of marketmakers and a lack of flexible trading rules has hindered liquidity in the market.

In Mexico, a difference of foreign and domestic opinion over prospects for the market also meant that foreigners selling shares in the past month found few Mexican buyers to take on the stock.

According to Mr Pablo Riveroll, head of research of the brokerage, Bursamex, Mexicans had already sold most of their holdings.

"Foreigners have been looking at Mexico longer term than the Mexicans," he says. "They say if you invest over three to five years yon will do well. Mexicans are looking at the troubles in store this year."

The main source of these troubles became evident on New Year's Day, when several thousand armed rebels seized half a dozen towns in the southern state of Chiapas. This exposed the weaknesses in Mexico's political institutions and deep social divisions in the country.

It also heightened concerns over next August's presidential election, which most investors had previously assumed would be a shoo-in for the candidate of the ruling Institutional Revolutionary Party, Mr Luis Donaldo Colosio.

Mexicans have been especially worried that Mr Manuel Camacho, the peace envoy in Chiapas, would declare himself as independent candidate for the presidency, says Mr Arturo Acevedo, head of research at the brokerage, Vector.

Some investors believe his candidacy would promote democracy and long-term stability, bnt the majority view him as a threat to continuity of economic policy represented by Mr Colosio, the man picked hy President Carlos Salinas.

These concerns have begun to permeate the consciousness of investors outside the country.

"Two months ago no foreigners were talking about political risk," says Mr Acevedo. "Today there is much more consciousness of the electoral process and political complications that could arise."

"A lot of people were saying that Mexico had emerged," says another leading stockbroker, "but they were forgetting political risk. You need stability in the transfer of power to emerge."

The outlook was further clouded by the disclosure last month that Mexican growth last year was a meagre 0.4 per cent, the lowest rate for seven years. On top of that, there has been increased volatility in the Mexican peso, prompting some worries aboot whether the current exchange rate band is sustainable through the election year.

Despite all this, some foreign analysts dismiss arguments that tha market weakness is doe to local factors: "I don't believe it has anything to do with politics, and I don't buy the story that it has anything to do with the economy," says Mr Dennis.

When buyers return, they believe Mexico will be well placed. "A lot of markets were overbought, and will not be able to sustain valuations that were driven solely by the flood of money into the markets," says Mr Larry Brainard of Goldman Sachs in New York.

"When this happens, you have to look at the underlying economic fundamentals. In Latin America, the fundamentals are good in Mexico and Argentina right now."

With the North American Free Trade Agreement in place, Mexico, along with Chile, is regarded as the Latin country that has done most to streamline its economy.

Although the pay-off so far in growth has been modest – the restructuring of Mexican industry has been more profound than many thought likely beforehand – many analysts see medium-term growth prospects as good.

On top of that, price-to-earnings ratios in Mexico are low compared with other Latin American markets. Mexico's average prospective p/e is lower than any Latin American country save Brazil.

Bear Stearns calculates Mexico's at just below 14, compared with 17.3 for Argentina and 18.2 in Chile. Brazil stands at 13.5, Venezuela at 15.5, and Peru at 19.

But while foreigners may be content to look at earnings multiples, Mexicans are likely to remain unconvinced. The last three presidencies have ended in financial crisis, which suggests they probably will not return to the market in strength until the election year is out.

Ten best performing stocks

Stock	Country	Friday close	Week on week change $	Week on week change %
Cukurova Elektrik	Turkey	0.8011	0.1067	15.36
Goldstar	S.Korea	30.2429	2.4360	8.76
Light Servicos de Electricade	Brazil	0.2803	0.0214	8.27
Cho Haung Bank	S.Korea	10.8329	0.7606	7.55
Evergreen Marine	Taiwan	2.0057	0.1357	7.31
Hanil Bank	S.Korea	11.0436	0.6747	6.51
Central Puerto	Argentina	7.0014	0.4027	6.10
Controladora Comercial	Mexico	1.9383	0.1099	6.01
Formosa Plastics	Taiwan	1.9111	0.0987	5.45
Corcemar	Argentina	7.1514	0.3528	5.19

Source: Baring Securities

■ Secondary market

A sharp collapse in the price of secondary market emerging market debt has left many traders in the paper nursing losses.

Among prominent traders, JP Morgan, the top-ranked New York bank, saw its shares fall last week as reports swept the market that it had lost money in both emerging market debt and derivatives trading.

Simply holding the paper has been enough to help some traders to riches as prices rose relentlessly over the past few years. But losses since the market peaked in mid-Jannary have been rapid.

An index calculated by West Merchant Bank – which tocludes both Brady bonds and restructured bank loans – has fallen almost 13 per cent since it peaked to mid-January.

Falls were sharpest in countries that have yet to achieve a Brady debt restructuring. Russian paper lost the most as the price fell more than 40 per cent to just over 30 cents on the dollar.

Other big losers were Peru, off more than 25 per cent, Nigeria, down 22 per cent, and Panama, down 20 per cent.

■ Venezuela

Venezuela became the first country with outstanding Brady bonds to be downgraded when Standard & Poor's lowered its ratings on the republic's Eurobonds to double-B minus from double-B. About \$2.1bn of foreign currency-denominated debt is affected. It has revised its outlook to stable from negative.

S & P said the downgrade stemmed from a further substantial weakening in the country's public finances in recent months and uncertain prospects that the new government can pursue effective fiscal and ecooomic reforms over the medium term.

News round-up

■ Manila

The country's two stock exchange trading floors – in the Ortigas Ceotre and the Makati financial district – began their merger by trading one stock at a single price last Friday. It is hoped to complete the process in about two weeks.

■ London

The Investment Bank of Latvia has signed an equity agreement with the EBRD. The equity stake is the first foreign participation in the bank, and represents 35 per cent of its capital. The LIB, established in 1992, aims to promote Latvia's economic development by lending hard currency to the private sector. Lending goes mainly into the wood processing sector, but also into tourism, harbour facilities and light industry.

■ Cairo

Egypt is considering offering shares of some 314 public sector companies for public subscription. The government has said that about 90 of 360 state companies were running at a loss, with debts of about \$16bn.

■ Bratislava

Direct foreign investment to Slovakia was about \$135m in 1993, down from \$151m in 1992, the Slovak statistical bureau has said. Foreign capital investment since the communist government fell in 1989 has totalled \$366.2m.

Austria was the leading investor from 1990 to 1993 with \$87m placed in 1,141 companies. Germany followed with \$77m in 743 companies. The US has invested \$47m in 161 companies, and the Czech Republic \$40m in 666 companies.

● Further coverage of emerging markets appears daily on the World Stock Markets page.

Baring Securities emerging markets indices

Index	4/3/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (248)	163.35	-7.19	-4.21	-18.45	-10.15	-5.06	-3.01
Latin America							
Argentina (19)	114.08	-8.26	-6.75	-19.63	-14.68	-1.30	-1.13
Brazil (20)	174.12	-9.76	-5.31	-12.72	-6.81	34.47	24.68
Chile (12)	166.41	-8.70	-4.97	-19.74	-10.61	18.87	12.79
Mexico (24)	155.58	-2.26	-1.43	-22.01	-12.39	-5.69	-3.53
Latin America (75)	156.58	-6.00	-3.69	-19.47	-11.06	7.34	4.92
Europe							
Greece (14)	98.10	-0.43	-0.43	-2.00	-2.00	15.01	18.06
Portugal (14)	124.35	-4.33	-3.36	-4.78	-3.70	12.23	10.91
Turkey (22)	92.40	-10.33	-10.06	-30.59	-24.87	-69.31	-42.86
Europe (50)	108.49	-4.15	-3.86	-8.99	-7.66	-3.75	-3.34
Asia							
Indonesia (17)	158.25	-7.08	-4.28	-22.90	-12.64	-12.79	-7.48
Korea (23)	124.22	-3.30	-2.59	-7.03	-5.35	14.52	13.23
Malaysia (22)	207.88	-13.32	-8.02	-18.40	-8.13	-45.17	-17.85
Philippines (11)	256.91	-30.82	-10.71	-31.50	-10.92	-65.57	-20.33
Thailand (21)	214.39	-13.43	-5.90	-20.98	-8.91	-49.17	-18.66
Taiwan (29)	143.06	0.09	0.06	-18.95	-11.70	-10.65	-6.93
Asia (123)	191.52	-10.37	-5.14	-18.99	-9.02	-29.89	-13.50

All indices in \$ terms, January 7th 1992=100. Source: Baring Securities

CURRENCY MARKETS — Philip Gawith

Markets watch Germany and the US

Attention this week in foreign exchanges will focus on the two central banks whose activities have combined recently to throw financial markets into disarray.

On the one hand all eyes will be on the Bundesbank on Tuesday to see whether, and by how much, it cuts the repo rate – the key rate it uses to establish the level of money market rates.

Last week the German central bank trimmed the rate by 3 basis points to 5.97 per cent from 6 per cent.

Most observers expect it will continue the "salami" process of trimming rates down in small, weekly increments.

On the other hand, the market remains very skittish about the US inflation outlook. Although the Fed did not tighten policy on Friday after the release of employment data, many believe a tightening remains imminent – and the sooner the better.

Most analysts agree that weak European economies need lower rates and look to Germany to provide a lead.

They argue that Europe needs decisively to "decouple" from the US, where economic recovery is much more advanced.

One factor inhibiting the Bundesbank is the industrial dispute in the engineering sector.

At the end of last week, employers and unions were trying to reach agreement, but few expected the central bank to move decisively while the whiff of strikes and lock-outs remained in the air.

Various data releases this week – principally tomorrow's fourth quarter GDP figure, expected to confirm a "double-dip" at the end of last year – should lend support to the case for a monetary easing.

Two main factors are currently influencing the dollar: the trade dispute with Japan, and the market view that the Fed is likely to push rates up again.

Last week the dollar actually rose after President Clinton announced the re-activation of the Super 301 executive order which will allow the US to impose trade sanctions against Japan.

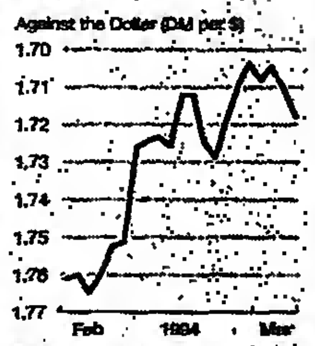
The market's obsession with the US inflation outlook will have to wait until next week for price data. In the interim, Friday's retail sales figures and the Fed's tan book, to be released on Wednesday, are sure to be the subject of intense scrutiny.

Sterling has been out of the limelight since the furore over last month's 25 basis points cut in rates.

Most observers expect another cut of similar magnitude, but the Bank of England is expected to wait until later in the month, or April, when it has fresh, and supportive, inflation data.

D-Mark

Against the Dollar (DM per \$)



Source: FT Graphite

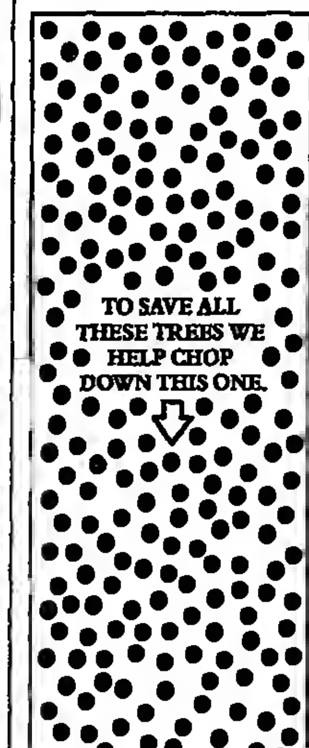
FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, March 4, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	2722.00	1826.48	1032.08	1731.11
Albania	(Lek)	163.90	109.978	63.8609	104.236
Algeria	(Dinar)	35.5960	23.8851	13.8889	22.636
Andorra	(Fr Fr)	8.7113	5.8453	3.389	5.5401
	(Sp Peseta)	210.177	141.03	82.0074	133.666
Angola	(New Kwanza)	18621.45	12495.1	7265.77	11842.7
Antigua	(E Carr $)	4.0230	2.6994	1.5697	2.5585
Argentina	(Peso)	1.4899	0.9997	0.5813	0.9475
Aruba	(Florin)	2.6671	1.7890	1.0408	1.6961
Australia	(Aus $)	2.0865	1.4	0.8141	1.3269
Austria	(Schilling)	18.0142	12.0876	7.0286	11.4564
Azores	(Port Escudo)	262.061	175.844	102.252	166.663
Bahamas	(Bahama $)	1.4903	1	0.5814	0.9477
Bahrain	(Dinar)	0.5615	0.3769	0.2192	0.3572
Balearic Is	(Sp Peseta)	210.177	141.03	82.0074	133.666
Bangladesh	(Taka)	58.5688	39.2987	22.8518	37.2466
Barbados	(Barb $)	2.9968	2.0108	1.1693	1.9058
Belgium	(Belg Fr)	52.7696	35.4088	20.5896	33.56
Belize	(B $)	2.98	1.9995	1.1627	1.8951
Benin	(CFA Fr)	871.130	584.593	339.9	554.013
Bermuda	(Bermudian $)	1.4903	1	0.5814	0.9477
Bhutan	(Ngultrum)	46.7902	31.3904	18.2567	29.7571
Bolivia	(Boliviano)	6.7509	4.5298	2.634	4.2933
Botswana	(Pula)	3.8733	2.599	1.5112	2.4635
Brazil	(Cruzeiro Real)	1010.17	677.83	394.151	642.499
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Gambia	(Dalasi)	12.367	8.2983	4.8253	7.865
Germany	(D-Mark)	2.5629	1.7197	1	1.6299
Ghana	(Cedi)	1348.46	904.818	526.142	857.574
Gibraltar	(Gib £)	1.00	0.671	0.3901	0.6358
Greece	(Drachma)	371.967	249.592	145.135	236.56
Greenland	(Danish Krone)	10.0152	[illegible]	[illegible]	[illegible]
Grenada	(E Carr $)	4.0230	[illegible]	[illegible]	[illegible]
Guadaloupe	(Local Fr)	8.7113	[illegible]	[illegible]	[illegible]
Guam	(US $)	1.4903	[illegible]	[illegible]	[illegible]
Guatemala	(Quetzal)	8.6830	[illegible]	[illegible]	[illegible]
Guinea	(Fr)	1304.80	[illegible]	[illegible]	[illegible]
Guinea-Bissau	(Peso)	7458.00	[illegible]	[illegible]	[illegible]
Guyana	(Guyanese $)	190.72	[illegible]	[illegible]	[illegible]
Haiti	(Gourde)	17.06	[illegible]	[illegible]	[illegible]
Honduras	(Lempira)	10.8920	[illegible]	[illegible]	[illegible]
Hong Kong	(HK $)	11.5159	[illegible]	[illegible]	[illegible]
Hungary	(Forint)	164.390	[illegible]	[illegible]	[illegible]
Iceland	(Icelandic Krona)	107.80	[illegible]	[illegible]	[illegible]
India	(Indian Rupee)	46.7902	[illegible]	[illegible]	[illegible]
Indonesia	(Rupiah)	3196.62	[illegible]	[illegible]	[illegible]
Iran	(Rial)	2601.00	[illegible]	[illegible]	[illegible]
Iraq	(Iraqi Dinar)	0.4656	[illegible]	[illegible]	[illegible]
Irish Rep	(Punt)	1.0421	[illegible]	[illegible]	[illegible]
Israel	(Shekel)	4.4231	[illegible]	[illegible]	[illegible]
Italy	(Lira)	2516.36	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	45.4072	30.4684	17.7171	28.8776
Panama	(Balboa)	1.4903	1	0.5814	0.9477
Papua New Guinea	(Kina)	1.4156	0.95	0.5524	0.9004
Paraguay	(Guarani)	2679.00	1797.62	1045.3	1703.78
Peru	(New Sol)	3.2205	2.1609	1.2565	2.0481
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

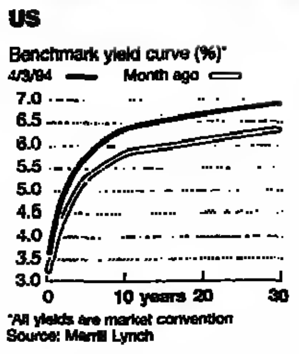


WORLD BOND MARKETS: This Week

NEW YORK — Richard Waters

While last week ended as it had begun – with data pointing to stronger economic expansion than bond investors had expected (or wanted) – a degree of composure had crept back into the US government bond market. This week, with little new data, should give the market pause to regain its bearings after the frantic slide of the past fortnight.

Friday's employment numbers (a greater-than-expected 217,000 increase in non-farm payrolls in February and a decline in the unemployment rate to 6.5 per cent (from 6.7 per cent the month before) seemed to provide ample opportunity for a sell-off. But the figures contained downward revisions in the January numbers and a modest 0.2 per cent increase in earnings. The bond market shrugged off persistent speculation that the Fed was on the verge of hiking rates again, this time possibly by 50 basis points, to recover its losses by the end of the day.



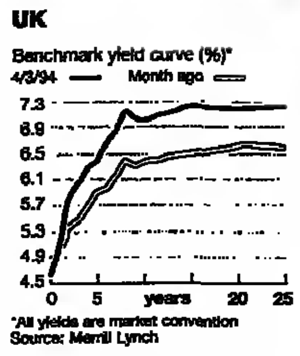
After the pessimism of recent days, Friday's mood swing could set the tone for the first part of this week. The only events of note will be the publication of the Fed's Beige Book on Wednesday and February retail sales figures on Friday. If interest rate speculation abates, and the bond market can get to the end of the week without losing further ground, chalk it up as a minor victory.

LONDON — Philip Coggan

Gilts traders are hoping that this week the market will recover some poise. Although there was precious little UK economic news last week, the market was battered by reports of increased price pressures in the US and rapid money supply growth in Germany.

Hopes of an imminent UK rate cut are diminishing. Although there is no official word on the outcome of last week's monetary meeting between the chancellor of the exchequer and the governor of the Bank of England, most analysts assume the duo decided to keep their powder dry for another month.

The main focus of domestic interest this week will be tomorrow's manufacturing output and industrial production figures for January, which are expected to show an upturn after December's falls. Mr James Barty, UK economist at Morgan Grenfell, said official economic statistics have been lagging behind survey data from the likes of the Confederation of British Industry. The market is expecting month-on-month increases of 0.3 per cent to 0.4 per cent.



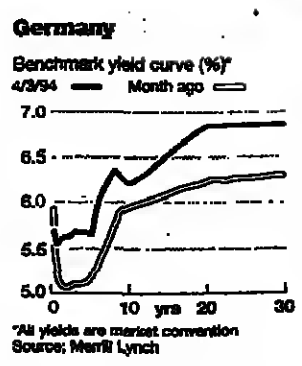
Most analysts believe the sell-off in gilts has been overdone, particularly in the light of news on UK inflation. But if the US Federal Reserve tightens policy further, this may turn out to be another week when UK economic fundamentals take a back seat to international influences.

FRANKFURT — David Waller

If investors are not still stunned in the aftermath of the "horror" 20.6 per cent growth in M3 money supply in January (announced on Thursday last week) and last week's wave of selling from the US, there may in the next few days be grounds for a cautious revival in sentiment.

First, the threat of a damaging strike in the engineering sector has been averted. The wages deal reached between the IG Metall union and employers in the early hours of Saturday morning removes one obstacle to further interest rate cuts on the part of the Bundesbank.

Second, with this obstacle removed, the Bundesbank may seize the opportunity to steer down money market interest rates by means of a variable rate tender for securities repurchase agreements (repos). The results of the tender will be published on Wednesday and it may be that after a minute three basis point drop in the repo rate last week to 5.97 per cent the rate will be shaved further.



A reduction in money market rates, by five basis points or more, would help restore investors' hopes of further generous cuts in the discount rate (at 5.25 per cent) during the first half of the year. But with US interest rates likely to rise, it remains to be seen whether the fortunes of the bund market can be decoupled from those of the US Treasury market.

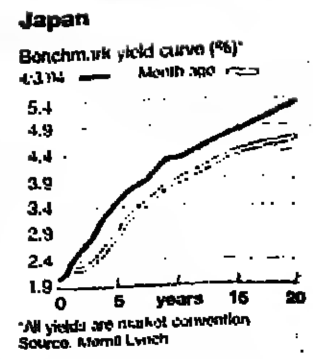
TOKYO — Emiko Terazono

Seasonal window dressing of accounts ahead of the March book closing, where investors prop up their earnings figures with profits from their gains from bonds, will continue to weigh on the Japanese government bond market.

However, most traders believe that the sell-off in the JGB market peaked last week, when the yield on the No 157 10-year benchmark rose nearly 40 basis points on the week to 3.99 per cent. Factors responsible for the plunge included surprisingly strong economic figures, further weakness on the international bond market, and worries about over-supply.

Barclays de Zoete Wedd in Tokyo believes that investors will regain confidence as the underlying weakness of the economy continues and money market operations by the Bank of Japan reveal that it would not tolerate a further rise in interest rates.

The central bank has allowed overnight call rates to ease to 2.125 per cent from 2.25 per cent, and the yield spread between the call rate and the official discount rate, currently at 1.75 per cent, is at a historical low.



A rise in long-term interest rates could hurt the economy, which remains vulnerable to the strengthening of the yen and political turmoil and the bank could ease short-term money market rates lower this week, to prevent a further fall in bond prices.

Capital & Credit / Conner Middelmann

Tough times for government auctions

The recent bloodbath in world bond markets has scared away all but the boldest investors, and amid the ongoing "buyers' strike" governments couldn't be blamed for worrying about who will buy their debt.

In recent weeks, European markets slumped as fears of higher US interest rates spilled across the Atlantic. The European sell-off was exacerbated by aggressive speculators offloading large and highly leveraged long positions, creating a sense of panic that sent institutional investors running for cover. Last week, several institutions joined the sellers and opted to hold large cash positions until the storm had blown over.

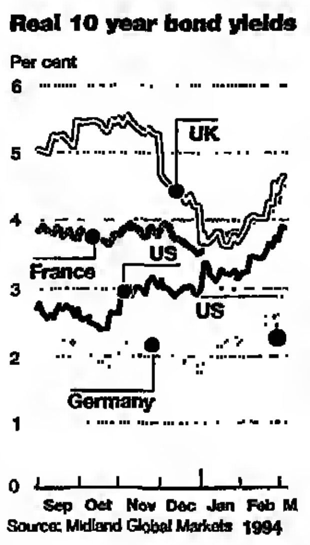
As a result, several recent government bond auctions have yielded dismal results.

An auction of Italian five-year notes last week barely scraped through on a bid-to-cover ratio of just over one, with the Bank of Italy placing only L4,343bn of the planned L4,500bn. Spain effectively cancelled last Thursday's auction of three-, five- and 10-year bonds by rejecting all bids.

In Japan, a recent auction of four-year bills flopped with a cover of only 1.06 times and a large tail (the difference between the average and the highest accepted yield) of 12.3 basis points; at the 10-year auction last week, only some 60 per cent of the targeted amount was sold, with the rest placed among the syndicate of underwriting banks. In Germany, the Treuhandanstalt's auction of 10-year bonds met with meagre bidding, leaving the Bundesbank a large amount of paper to sell through its market tending operations.

Some say all this is just a temporary hiccup, and predict buyers will return once bonds recover on Europe's bond-friendly fundamentals of slow growth accompanied by low inflation.

"Right now there's still a lot of nervousness, but sooner or later investors will focus on the fundamentals and return," predicts Mr Helmut Kaiser, senior economist at DB Research in Frankfurt. In the meantime, "governments can wait this out without too much risk – their funding strategies have become quite flexible".



Source: Midland Global Markets

Moreover, he argues, real yields have risen to levels that should start attracting buyers. The German real 10-year yield has risen to 2.83 per cent from 1.82 per cent at the end of 1993; in the UK, it rose to around 4.64 per cent from around 4.18 per cent over the same period.

"The level of real yields is very silly," says Ms Alison Cottrell, European economist at Midland Global Markets. She expects domestic investors to be lured back by attractive yields, and also expects some of the funds which flowed into US assets in recent months to return as Europe's economies recover and their currencies strengthen.

Meanwhile, many expect Europe to get out of the US interest rate cycle once its fundamentals reassert themselves. This decoupling, and the resulting turnround in bond market sentiment, could be spurred by more aggressive rate cuts from the Bundesbank, reminding investors that European short-term rates are still headed lower. Friday's market action sent encouraging signals, with European bonds outperforming US Treasuries after stronger-than-expected US jobs data.

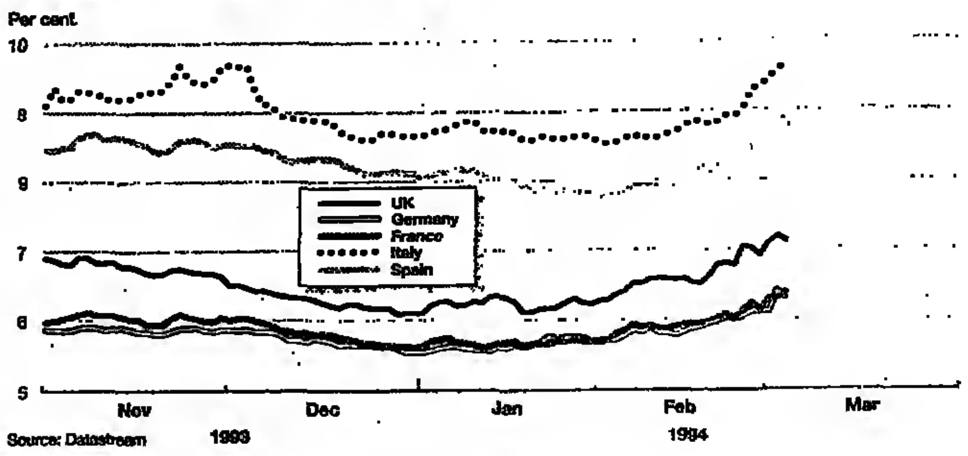
Additional help in funding budget deficits may come from higher-than-expected tax receipts as Europe's economies recover.

Yet there are some who fear the end-of-cycle-blues may limit sustained investor demand for bonds.

"It will be much more difficult to place stock this year than it was last year," says Mr Graham McDevitt, bond strategist at IDEA. "It's always easier to fund in a bull market than in a bear market." While he expects bonds to recover in the near term, he says investor confidence will be slow to return after the recent rout. Moreover, as the end of the cycle looms, rallies will be increasingly short-lived as investors are quicker to seize opportunities for profit-taking, he says.

This means that governments will have to gauge market conditions much more carefully when they plan to issue bonds. "There will be windows of opportunity, but last year's flexibility is gone," he says. "We could get some very messy auctions."

10 year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	3.00	1.75	5.25	7.00[1]	8.00	5.25[2]
Overnight	3.18	2.31	6.00	6.25	8.26	5.75
Three month	3.62	2.15	5.81	6.18	8.18	5.06
One year	4.29	2.15	5.43	5.86	8.06	5.19
Five year	5.84	2.32	5.61	5.75	9.03	6.43
Ten year	6.66	3.99	6.20	6.28	9.38	7.02

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	110-15	110-24	+0-10	111-05	109-31	28,153	126,912
Jun	109-14	109-21	+0-09	109-31	108-26	422,007	272,169
Sep	108-16	108-25	+0-09	109-00	108-02	614	34,706

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts* (Lives up to Five Years)						
Exch 13½pc 1994	101⅞	-.1	1,100	Ap27 Oc27	20.9	1267
Treas. 10pc Ln. 1994‡‡	101¾	-.1	1,900	Je9 De9	2.11	1284
Exch 12½pc 1994	103⅞	-.1	1,240	Fe22 Au22	17.1	1263
Treas 9pc 1994‡‡	102⅞	—	1,900	My17 Nv17	11.10	1345
12pc 1995	106⅛	-.1	2,350	Ja25 Jy25	20.12	1294
Exch 3pc Gas 90-95	91¾	-.2	214	My1 Nv1	27.9	1271
10¼pc 1995	106⅞	—	2,500	Ja21 Jy21	15.12	1254
Treas 12¾pc 1995‡‡	111⅞	-.1	840	My15 Nv15	11.10	1298
14pc 1996	114⅞	-.1	770	Ja22 Jy22	16.12	1305
15¼pc 1996‡‡	118⅝	-.2	1,150	My3 Nv3	27.9	1309
Exch 13¼pc 1996‡‡	115⅛	-.1	800	My15 Nv15	11.10	1308
Conversion 10pc 1996	110	—	3,409	My15 Nv15	11.10	1240
Treas 13¼pc 1997‡‡	118⅞	-.1	1,290	Ja22 Jy22	16.12	1302
Exch 10½pc 1997	111¼	—	3,700	Fe21 Au21	17.1	1253
Treas 8¾pc 1997‡‡	107¼	-.1	5,550	Mr1 Se1	24.1	1341
Exch 15pc 1997	127⅞	-.2	630	Ap27 Oc27	20.9	1269
9¾pc 1998	111¼	—	3,550	Ja19 Jy19	13.12	1273
Treas 7¼pc 1998‡‡	103⅝xd	—	7,850	Mr30 Se30	21.2	–
Treas 6¾pc 1995-98‡‡	101⅞	0.1	1,200	My1 Nv1	27.9	1331
14pc '98-1	120⅞	-.2	970	My22 Nv22	18.10	1306
Treas 15½pc '98‡‡	134⅞xd	-.3	935	Mr30 Se30	21.2	1308
Exch 12pc 1998	121⅛	-.3	3,909	My20 Nv20	14.10	1259
Treas 9½pc 1999‡‡	111⅞	-.2	1,900	Ja15 Jy15	9.12	1347
Five to Fifteen Years						
Exch 12¼pc 1999	123	-.3	3,050	Mr26 Se26	20.0	1264
Treas 10½pc 1999	116	-.4	1,252	My19 Nv19	13.10	1288
Treas 6pc 1999‡‡	98⅞	—	3,900	Fe10 Au10	4.1	–
Conversion 10¼pc 1999	115⅞	-.4	1,798	My22 Nv22	18.10	1242
9pc 2000‡‡	110⅞	-.1	5,358	Mr3 Se3	25.1	1244
Treas 13pc 2000	130⅛	-.2	3,171	Ja14 Jy14	8.12	1299
10pc 2001	116	-.3	4,406	Fe26 Au26	20.1	1280
7pc '01‡‡	100⅞	-.3	3,250	My6 Nv6	–	–
7pc '01 A	50¼	-.0	2,500	My6 Nv6	–	–
9¾pc 2002	116⅛	-.2	6,527	Fe27 Au27	21.1	1349
8pc 2003‡‡	106⅞	-.3	7,600	Jn10 De10	3.11	–
10pc 2003	119xd	-.2	2,503	Mr8 Se8	31.1	1261
Treas 11½pc 2001-4	123⅞xd	-.3	1,620	Mr19 Se19	10.2	1290
Funding 3½pc '99-4	78⅞	-.5	543	Ja14 Jy14	8.12	1274
Conversion 9½pc 2004	116½	-.5	3,412	Ap25 Oc25	20.9	1246
Treas 6¾pc 2004‡‡	97⅞	-.4	3,250	My26 Nv26	–	–
6¾pc 2004 A	97⅞	-.4	3,000	My26 Nv26	–	–
Conv 9½pc 2005	116⅞	-.5	4,842	Ap16 Oc16	13.9	1247
Treas 12½pc 2003-5	134⅞	-.3	2,300	Mr21 Nv21	15.10	1295
7¼pc 2006‡‡	104⅞xd	-.3	3,900	Mr8 Se8	31.1	–
8pc 2002-6‡‡	104¼xd	-.1	2,000	Ap5 Oc5	1.3	1334
Treas 11¾pc 2003-7	127⅞	-.3	3,150	Ja22 Jy22	16.12	1293
Treas 8½pc 2007‡‡	110⅞	-.3	5,497	Ja16 Jy16	10.12	1339
13½pc '04-8	142⅛	-.3	1,250	Mr26 Se26	20.8	1301
Treas 9pc 2008‡‡	115½	-.2	5,321	Ap13 Oc13	6.9	1343
Over Fifteen Years						
Treas 8pc 2009	106⅛xd	-.5	3,100	Mr25 Se25	15.2	1336
Treas 6¼pc 2010 (£50pd)	41	-.6	2,750	–	–	–
Conv 9pc Ln 2011‡‡	116⅞	-.3	4,273	Ja12 Jy12	6.12	1245
Treas 9pc 2012‡‡	117⅛	-.3	5,150	Fe6 Au6	31.12	1701
Treas 5½pc 2008-12‡‡	83⅞xd	-.9	1,000	Mr10 Se10	1.2	1330
Treas 8pc 2013‡‡	107⅞	-.5	4,950	Mr27 Se27	23.8	–
7¾pc 2012-15‡‡	104⅞	-.6	800	Ja26 Jy26	20.12	1332
Treas 8¾pc 2017‡‡	118⅞	-.7	6,950	Fe25 Au25	19.1	1982
Exch 12pc '13-'17	146⅞	-.5	1,000	Ja12 De12	5.11	1260
Undated						
Consols 4pc	52⅞	-.5	359	Fe1 Au1	29.12	1239
War Loan 3½pc‡‡	47⅞	-1.7	1,909	Ja1 Dc1	25.10	1352
Conv 3½pc '61 Aft	63⅞xd	-.6	119	Ap1 Oc1	23.2	1243
Treas 3pc '66 Aft	38⅞xd	-2.0	56	Ap5 Oc5	1.3	1324
Consols 2½pc	33⅞xd	-1.9	275	5JaApJyOc	1.3	1236
Treas 2½pc	32⅞xd	-1.6	475	Ap1 Oc1	21.2	1315
Index-Linked (b)						
Treas 2pc '94 (102.9)	137¼	—	500	My16 Nv16	11.10	5070
2pc '96 (67.9)	200⅜xd	-.2	1,300	Mr16 Se16	7.2	1313
4⅝pc '98‡‡ (135.6)	109⅞	0.2	800	Ap27 Oc27	20.9	–
2½pc '01 (78.3)	171⅞xd	0.5	1,500	Mr24 Se24	15.2	1316
2½pc '03 (78.8)	169⅞	0.5	1,050	My20 Nv20	14.10	1317
4⅜pc '04‡‡ (135.6)	113⅞	0.7	850	Ap21 Oc21	14.9	–
2pc '06 (69.5)	178¼	0.4	1,650	Ja19 Jy19	13.12	1314
2½pc '09 (78.8)	150⅞	0.4	1,550	My20 Nv20	14.10	1310
2½pc '11 (74.6)	165¼	0.2	1,800	Fe23 Au23	17.1	1319
2½pc '13 (89.2)	136⅞	0.3	2,300	Fe16 Au16	10.1	1320
2½pc '16 (81.6)	145⅞	0.1	2,400	Ja26 Jy26	20.12	1321
2½pc '20 (83.0)	140⅞	-.1	2,400	Ap16 Oc16	9.9	1322
2½pc '24‡‡ (97.7)	118⅛	—	1,900	Ja17 Jy17	13.12	1333
4⅛pc '30‡‡ (135.1)	117⅞	-.1	1,300	Ja10 Jy22	16.12	–

(b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for June 1993: 141.0 and for January 1994: 141.3.

Other Fixed Interest

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
African Dev 11¼ 2010	131⅞	-.8	50	Ja4 Jy4	1.12	–
Asian Dev 10¼pc 2009	123⅞	-.8	100	Mr24 Se24	28.3	–
B'ham 11½pc 2012	130¼	-2.8	45	My15 Nv15	17.4	1807
Ireland Cap 8½pc '10	108¼	-1.1	303	Ap1 Oc1	–	1465
9pc Cap 1996	101	-.6	725	Ja30 Jy30	–	–
13pc '91-2	112⅛	-1.2	315	Ap1 Oc1	28.8	1428
Hydro Quebec 15pc 2011	157⅞	-.7	40	My30 Nv30	27.10	–
Leeds 13½pc 2006	140	-2.3	40	Ap1 Oc1	12.3	3146
Liverpool 3½pc Irred	41	-3.5	5	1JaApJeOc	1.6	3169
LCC 3pc '20 Aft	38½	-3.8	28	1MrJeSeDe	1.8	–
Manchester 11½pc 2007	128¼	-2.3	6	Ap25 Oc25	30.3	3275
Met. Wtr. 3pc 'B'	72½	-2.0	25	Mr1 Se1	1.8	3361
N'wide Anglia 3⅞pc 2021	140½	-1.4	60	Ja30 Jy30	1'93	3465
4¼pc IL 2024	135¼	-1.5	50	–	20.7	–
Utd Mex States 16½pc 2008	148	-2.3	50	Mr1 Se1	27.8	–

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds. Weekly percentage changes are calculated on a Friday to Friday basis.

International / Emiko Terazono

Caught up in negative sentiment

Japanese government bonds have not remained unscathed amid the recent turmoil in international bond markets, but have been caught up in the negative sentiment stemming from rising US interest rates.

Long-term yields have risen to five-month highs, and although investors have expected weakness in the bond market ahead of the March year-end book closing, where institutional investors lock profits on their portfolios to shore up earnings, this year the decline has been exacerbated by worries of extra supply and hopes of an imminent economic recovery.

The yield on the No 157 10-year benchmark, which breached 3 per cent to a record low at the beginning of January, rose briefly above the 4 per cant mark last week for the first time since September last year.

Deteriorating investor confidence was also highlighted by the failure of last week's 10-year bond auction, where the average accepted price was 97.38, the second lowest on record.

Such weakness in sentiment comes as activity slows ahead of the business year end. After an eight-month rally, investors rushed to realise profits, and few have been willing to buy bonds to take on new positions.

The low trading volumes have made the bond market vulnerable to small-lot selling.

On top of seasonal trading, worries of over-supply, triggered by the government's Y9,400bn economic package and Y5,850bn tax cut announced last month, have weighed down on the bond market.

New bond issues by the central government for this fiscal year to the end of this month have risen by 52.5 per cent from initial plans to Y12,400bn, while bond issuance by municipal governments, initially slated at Y10,350bn, has increased by 30.4 per cent to Y13,500bn.

For the next fiscal year to March 1995, the central government is planning to issue a total of Y13,640bn in bonds, a 10 per cent rise from the previous year, of which Y3,130bn will be in deficit financing bonds – which have not been issued for five years.

On the municipal level, bond issuance is expected to rise by 9 per cent to Y14,730bn, of which Y1,650bn in deficit financing bonds, the first issued since 1976.

While fears of additional supply are expected to be absorbed by the third quarter, uncertainty over the economy has shaken bond investors, as recent economic indicators have spurred hopes of a long-overdue economic recovery.

Industrial production figures for January announced last week were stronger than previous forecasts by both private sector economists and the government's preliminary indications.

Industrial output grew by 0.9 per cent from the previous month with the inventory to shipment ratio easing from a peak in December.

Labour statistics for January were also encouraging, with the ratio of job offers to applicants rising for the first time since March 1991.

Most investors also interpreted the Tankan, or quarterly survey on business sentiment, which indicated a sideways movement in sentiment, as reflecting a bottoming out of conditions surrounding the corporate sector.

Sentiment levels were largely unchanged from the previous survey, with manufacturing sentiment remaining at -56, and non-manufacturing sentiment rising to -46 from -47.

The level of confidence veried from sector to sector. Sentiment within the electric machinery sector, for example, rose to -53 from -63 and the retail sector posted an improvement to -60 from -65.

However, many economists are loath to call a near-term recovery just on the recent economic figures.

"We know that the economy is indeed in a trough, but we don't know whether it's going to go sideways or headed for a V-shaped recovery," says Mr Dick Beason, economist at brokers James Capel in Tokyo.

The Tankan, for example, indicated that business conditions at small companies, usually leading indicators turning points in the economy, remained grim. Confidence at small manufacturers fell to -48 from -45, while they expect to cut capital spending by 32.3 per cent next business year, and predict financial conditions to remain tight.

The sluggish business conditions, on top of a rise in the yen and mounting trade tensions between the US and Japan, have been a concern for the Bank of Japan, which has kept a wary eye on the recent rise in long-term yields.

In an attempt to curb some of the upward pressure on interest rates, it has lowered the overnight call rate by 25 basis points to 2.125 per cent, cutting the yield spread between the official discount rate to a record low.

Some traders hope the money market manoeuvers by the central bank is a prelude to a discount rate cut.

"The odds of an ODR reduction are higher than markets currently expect," says Barclays de Zoete Wedd in Tokyo. It believes that a discount rate cut of 25 to 50 basis points during the second quarter is possible.

Although a discount rate cut will lift Japanese government bonds, an improvement in international sentiment towards bond markets is essential for a full fledged recovery. Mr Nick Stamenkovic, economist at DKB International in London, believes that once the US Treasury market revives, the Japanese 10-year benchmark will reach 3 per cent by the summer.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Nippon Denro Ispat(c)§	125	Apr.2001	3.00	100.00	-	-	SG Warburg Securities
Hanson America(j,d)§	1bn	Mar.2001	2.39#	79.674	-	-	Lehman Brothers
Japan Radio Co.(e)φ	200	Mar.1998	1.125	100.00	-	-	Nikko Europe
Hokuetsu Paper Mills(g)φ	70	Mar.1998	1.75	102.50	-	-	Yamaichi Intl.(Europe)
CCCE‡	250	Mar.1997	(k)	99.74R	-	-	CS First Boston
Intelsat	200	Mar.2004	6.625	99.84R	6.647	+37 (6⅞%-04)	Goldman Sachs (Asia)
African Development Bank	500	Mar.2004	6.50	99.35R	6.591	+28 (6⅞%-04)	Lehman/Salomon Bros.
Empresas ICA(p)§	135	Mar.2004	5.00#	100.00	-	-	Baring Brothers & Co.
Banco Nacional de Mexico‡	100	Mar.1996	(q)	100.00R	-	-	Kidder Peabody Intl.
Republic of Iceland‡	47	Mar.1999	(r)	99.85R	-	-	Nomura International
Malayan Bnkg. Berhad(v)★‡	100	Mar.2004	(w)	100.00	-	-	JP Morgan Secs. Asia
D-MARKS							
Kaufhof Finance‡	100	Mar.2004	(a)	101.875	-	-	Commerzbank
YEN							
Korea Development Bank	20bn	Mar.2004	4.70	100.00	4.700	-	Bk. of Tokyo Cp.Mkts.
Kinki Nippon Railway Co.(l)	10bn	Jun.1999	3.60	101.775	-	-	Mitsubishi Trust Intl.
Kinki Nippon Railway Co.(l)	10bn	Jun.1998	3.35	101.325	-	-	Mitsubishi Finance Intl.
Ford Credit Europe(l)	10bn	Jun.1997	3.635#	100.00R	-	-	G.Sachs/Sumitomo Tst.
STERLING							
Nationwide B/S(l,m)‡	max300	Oct.1996	(n)	100.00	-	-	Baring Brothers
Morgan Stanley Group‡	150	Mar.1998	(k)	99.785R	-	-	Morgan Stanley Intl.
FRENCH FRANCS							
Tokyo Electron(i)φ	1.1bn	Mar.1998	1.25	100.00	-	-	Banque Nomura France
CANADIAN DOLLARS							
ONBN	125	Dec.1997	6.00	100.295R	5.920	+10 (o)	ScotiaMcLeod
Ontario Hydro‡	1bn	Mar.1999	(x)	99.64R	-	-	M. Lynch/Wood Gundy
GUILDERS							
General Electric Capital Corp.	250	Mar.1997	5.50	99.84R	5.559	+15 (o)	ABN Amro Bank
ITALIAN LIRE							
Credito Fondiario e Ind.(y)‡	120bn	Mar.2004	(u,z)	100.00	-	-	Monte dei Paschi
SWISS FRANCS							
Japan Radio Co.(f)★φ	150	Mar.1998	0.25	100.00	-	-	Credit Suisse
San-Ai Oil Co.(j)★φ	75	Mar.1998	0.25	100.00	-	-	Credit Suisse
European Sovereign Inv.(s)★‡	50	Jan.1997	(t,l)	100.40	-	-	Credit Suisse
European Sovereign Inv.(s)★‡	50	Jan.1997	(u,l)	100.40	-	-	Credit Suisse
Credit Commercial de France‡	150	Mar.1999	(h)	100.50	-	-	Credit Suisse

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. φWith equity warrants. ★Private Placement. #Semi-annual coupon and yield. R: fixed re-offer price. a) 7% fxd for 1st yr, 6-mth Libor +0.12% for next 5 yrs and 7% fxd thereafter. b) 4% fxd for 1st 6 mths and 6-mth Libor -⅛% thereafter. c) Conv into GDR's at Rs61. FX: 31.37Rs/$. Callable after 5 yrs subject to 140% rule. d) Exch into Hanson ADR's at $24.60. Callable after 5 yrs at accreted value. e) Denom: $10,000 +2 wrts. Ex price: Y2030. FX: 105.70Y/$. g) Denom: $10,000 +2 wrts. Ex price: Y861. FX: 105.70Y/$. h) Denom: FFr10,000 +1 wrt. Ex price: Y3444. FX: 18.35Y/FFr. i) Denom: SFr50,000 +50 wrts. Ex price: Y2030. FX: 74.30Y/SFr. j) Denom: SFr50,000 +50 wrts. Ex price: Y867. FX: 73.76Y/SFr. k) 3-mth Libor +⅛%. l) Short 1st coupon. m) Callable on any coupon date from Apr.95 at par. n) 3-mth Libor +0.1%. o) Over interpolated yield. p) Intl tranche of $435m US domestic deal. Conv into ADS's at $33.15. Callable from 7/3/98 with 2 yrs of 130% protection. q) 6-mth Libor +1%. r) 3-mth Libor +⅛%. s) Secured by European Union govt bonds. t) Tranche A: 4% fxd to 7/1/95 and 3-mth Libor flat thereafter. u) Tranche B: 3-mth Libor flat. v) Subordinated certificates of deposit. Callable on any coupon date from 17/3/99 at par. w) 6-mth Libor +1% for 1st 5 yrs and +2.5% thereafter. x) 3-mth BA's flat. y) Callable on 31/5/97 and annually thereafter. z) Short 1st and last coupons. Note: Yields are calculated on ISMA basis.

EQUITY MARKETS: This Week

NEW YORK

Patrick Harverson

Investors gripped by inflation fever

Having survived Friday's nerve-wracking release of the February employment report unscathed, the stock market faces a quiet week, with nothing on the economic agenda to match the import of the monthly jobs figures.

Awaiting the employment data was nerve-wracking because both the bond and stock markets feared that if the figures had come in above forecasts, the Federal Reserve would have quickly pushed up interest rates again in an attempt to dampen inflationary pressures in the increasingly buoyant economy. In the event, the report was mixed, and the feared rate increase never materialised, allowing share prices to end the week on a positive note.

Ironically, the fuss over whether the Fed would follow a strong employment report by raising rates diverted attention from the fact that the February jobs figures were bullish for stocks. They were neither so buoyant as to raise fears of an overheated economy, nor so weak as to revive concern about the state of the labour market.

This good news was mostly overlooked because the stock market has caught a bad case of the bond market's inflation fever. In recent weeks the slightest hint of rising prices – in a purchasing managers' report, say, or a regional Fed survey – has spooked fixed-income investors and pushed up long-term interest rates and depressed share prices.

While concerns about inflation appear overdone (few economists can find any real evidence of rising prices in the economy at the moment), the stock market is right to be worried by the sight of rising long-term interest rates.

This is because, as Mr William Dodge, Dean Witter's chief economist points out in this week's equity research note, the stock market has moved from an interest rate-driven phase in the cycle to an earnings-driven phase. If interest rates continue to rise, they will eventually inflict some damage on the economy. Weaker economic growth can only lead to weaker corporate earnings growth.

Or, as Mr Dodge puts it: "If interest rates do not fall, the tug-of-war between rising earnings and higher interest rates will begin in earnest from current stock market levels. And if interest rates slow the economy while remaining high, the earnings underpinning will be pulled out from under the market."

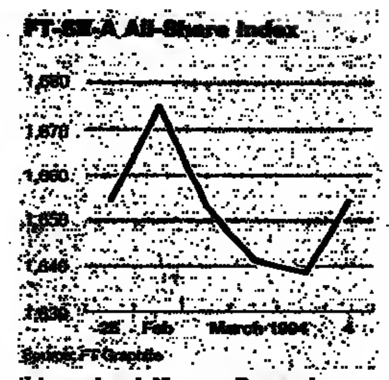
Fortunately, bond prices performed remarkably well on Friday, and interest rates actually ended the day slightly lower. Some observers hope that this resilient display marks a turning point of some kind for the bond market. The end, perhaps, of weeks of jittery, panicky trading.

If they are right, then the stock market should enjoy a welcome respite from the recent turmoil that has unsettled financial markets in the US and Europe. It helps that there is little important economic news due this week that might unnerve investors. The main events are Wednesday's publication of the Fed's "Beige Book" report on the economy, and Friday's release of February retail sales data.

LONDON

Terry Byland

Time now for the bargain hunters



It was another difficult week for equities, although the final net loss of only a few points on the FT-SE 100 Index is not in itself anything to lose sleep over. The question asked on all sides is, quite simply, "Is it over yet or is another March 1987 lurking in the shadows?"

The answer from market strategists is that fears have been overdone, that a shakeout in bond markets was inevitable and that equities now present a buying opportunity not to be missed. And the market seems to be agreeing with them.

There has been no great selling of equities – bonds and stock index futures are another matter – and the institutions have begun to buy. They have sought out bargains rather than buying across the board, and they have eschewed sectors seen as deserving a good hiding; the financial sectors, and in particular those with securities markets exposure, have continued to suffer.

The good news is that the European bond markets, directly responsible for the setback in equities, now show signs of disengaging from the US Treasury market. London, like other European markets, is still resigned to a further tightening by the Federal Reserve, but such fears no longer appear to be upsetting share prices.

The London stock market is now looking towards economic recovery for support, now interest rate prospects are more clouded. This week brings potential developments on this score.

The oil sector's concern over languishing crude prices has relaxed as Opec does not meet until the end of the month. But ministers of the Gulf-Co-Operation Council (GCC), which is effectively led by Saudi Arabia and Kuwait, meet in Jeddah this weekend. Nomura Research warns that the stock market may be greatly mistaken in its apparent assumption that oil price weakness is merely a temporary aberration.

The GCC is unlikely to contradict the blunt statement from the Saudis last December that they are not prepared to cut production. Oil exploration stocks, notably Enterprise and Lasmo, are still vulnerable to adverse news on oil pricing and share prices may not wait for the Opec meeting.

The uncertainties of the past fortnight have refocused attention on solid dividend-paying stocks which will underpin the liability side of pension fund balance sheets.

The RECs, the 12 regional electricity companies, plus the two Scottish companies, have been overshadowed by awareness that their distribution reviews are in hand and that a harsher regulatory regime lies ahead.

Panmure Gordon believes their dividend paying capacities will not be too badly hindered by tighter regulation.

Panmure reckons the value of the National Grid, owned by the RECs, is "grossly underestimated" in balance sheets, and may be worth about £4.1bn. It considers dividend rates of 6 per cent should be possible and rates London Electricity, Northern Electric, Seeboard, Southern Electric and Yorkshire Electricity as buys.

OTHER MARKETS

ZURICH

Ascom, the troubled telecoms equipment maker, is expected to reveal a 1993 loss of about SFr350m ($241m) at a press conference today. Electrowatt and Baer Holding also present full-year figures today. Analysts have been busily revising upwards their estimates for CS Holding which reports preliminary results tomorrow, after Friday's figures from Credit Suisse. Estimates for earnings range up to SFr2bn, compared with SFr1.03bn in 1992. Alusuisse is seen posting a 33 per cent fall in pre-tax profits tomorrow. SBC, giving full details of its 1993 results on Wednesday, has already reported net income up 36 per cent at SFr1.37bn.

BBC and its parent, ABB, report on Wednesday. Hoare Govett expects net profit to fall to $376m from $505 due to higher non-recurring costs at ABB.

FRANKFURT

Hoechst, the first of Germany's big three chemicals groups to report, is widely expected to cut the dividend to DM6 from last time's DM9, tomorrow. A 40 per cent fall in earnings after nine months was attributed to weakness in the European fibres business and polypropylene manufacture.

AMSTERDAM

Fokker reports on Wednesday and there is a broad consensus that the aircraft manufacturer, which has already unveiled plans for a drastic cut in aircraft output and jobs, will announce a Fl 150m ($79m) loss for 1993. Analysts are looking for a 10 per cent improvement at Heineken, reporting on Thursday. ABN Amro's figures are expected to advance 20 per cent on Thursday.

STOCKHOLM

A spate of results this week looks set to confirm a sharp turnround in earnings, says UBS. Gambro and Sandvik are seen raising net profit by 27 per cent tomorrow while Stora is expected to see a return to profit of about SKr400m. Results on Thursday come from AGA, Asea, Ericsson with an expected 137 per cent rise in pre-tax profit, Hennes & Mauritz and Trelleborg.

TOKYO

Trade tensions between Japan and the US following Washington's decision last week to revive the Super 301 provision for retaliatory trade tariffs may become an important influence.

RISK AND REWARD

Derivative frailties exposed by volatility

The dramatic sell-off in leading government bond markets during the past two weeks has exposed fundamental weaknesses in the fast-moving world of derivatives. Perhaps the most serious breakdown during this period of intense volatility has been the failure of securities houses to ensure liquidity in products they had structured and sold when the going was good.

Volatility is an important component in the pricing and trading of derivatives. It can be defined as a statistical measure of the tendency of a market price or yield to vary over time, or in the case of a government bond, until it matures. When a trader has to evaluate an option price, volatility is one of the most important and difficult elements to gauge because it is usually the only variable the trader does not know with certainty in advance.

With respect to options on European government bond futures, the implied volatility on Italian and Spanish government bond options is relatively high at around 10 per cent. Traders say the high level of implied volatility in these instruments mainly reflects the uncertain outlook on interest rates in these countries. In view of the volatility associated with these markets, it was not much of a surprise when implied volatility shot up during the recent heavy falls in the futures and cash markets.

By contrast, traders of fixed-income derivatives were panic-stricken when the implied volatility in options on German bunds more than doubled. Before the rout, options on bunds were seen as a model of price stability, boasting a low implied volatility of between 3¼ per cent to 4¼ per cent.

According to Mr Peter Kerger, head of futures and options at NatWest in Frankfurt, the implied volatility in bund options went as high as 10 per cent last Wednesday, when bund futures rose and fell by more than two points before closing virtually unchanged. The volatility has since fallen back to around 7½ per cent though the surge has caused the historical volatility of the options to increase substantially.

Although the rise in volatility made it much more expensive for investors or traders to buy options on Bunds, it also meant big paper profits for investors who held them. However, many have failed to realise these profits since liquidity in the market has virtually dried up. The large rise in volatility has made fair-weather market-makers reluctant to buy back options, causing bid-offer spreads to widen to more than six basis points from between three or four basis points during normal market conditions.

Indeed, many market-makers, especially those who have participated in the recent spate of government bond auctions, are keen to sell options at current levels in order to hedge their positions.

Some traders of fixed-income derivatives argue the over-the counter market in these products has never been particularly efficient. "It has never been a liquid two-way market, it has always been negotiated," says a head of department at a leading UK house.

Observers believe it will be some time before liquidity improves and they fear that a long delay could bring on further, debilitating bouts of volatility. The big players, namely the hedge funds forced to liquidate positions when a series of bets went wrong, are licking their wounds and are unlikely to come back soon.

Another brake on liquidity has been the sharp rise in margin requirements on several futures and options exchanges which have penalised those brave enough to keep trading. "Less liquidity means a greater likelihood in price jumps," says Mr Kerger.

Antonia Sharpe

CONTRACTS & TENDERS

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 4 / Sch)

BELGIUM/LUXEMBOURG (Mar 4 / Frs.)

DENMARK (Mar 4 / Kr)

FINLAND (Mar 4 / Mks)

FRANCE (Mar 4 / Frs.)

GERMANY (Mar 4 / Dm.)

ITALY (Mar 4 / Lire)

NETHERLANDS (Mar 4 / Fls.)

NORWAY (Mar 4 / Kroner)

SPAIN (Mar 4 / Pts.)

SWEDEN (Mar 4 / Kronor)

SWITZERLAND (Mar 4 / Frs.)

PACIFIC

JAPAN (Mar 4 / Yen)

HONG KONG (Mar 4 / H.K.$)

MALAYSIA (Mar 4 / MYR)

SINGAPORE (Mar 4 / S$)

AUSTRALIA (Mar 4 / Aust.$)

NORTH AMERICA

CANADA

TORONTO (Mar 4 / Can $)

4 pm close

MONTREAL (Mar 4 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Mar 4 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are 1993-94, except Toronto & Montreal (daily). § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. (u) Owing to technical problems at source, some French prices may be pre-close.

FT FREE ANNUAL REPORTS SERVICE
You can obtain the current annual reports of companies annotated with ♣. Ring 081 770 0770 or fax 081 770 3822, quoting FT Japan. If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822, quoting FT Japan. The Reports will be sent on the next working day. If faxing please remember to state FT Japan and also your post code.

■ TOKYO - MOST ACTIVE STOCKS: Friday, March 4, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Hitachi	9.5m	825	-2	OKI Electric	5.2m	599	-1
Itochu Corp	6.9m	706	+8	Nissan Motor	4.4m	873	+32
M'bishi Heavy	6.5m	707	+3	Ishi-Har Heavy	4.3m	457	+8
Sansui Elec	6.1m	350	+45	NKK Corp	4.2m	250	.
Sanyo Elec	5.5m	480	+10	M'bishi Motor	3.9m	900	+10

INDICES

	Mar 4	Mar 3	Mar 2	1993/4 High	1993/4 Low
Japan					
Nikkei 225 (16/5/49)	19966.00	19605.86	19744.77	21148.11 13/9/93	16078.71 29/11/93
Nikkei 300 (1/10/82)	299.30	295.32	298.07	308.84 10/11/93	249.84 29/11/93
Topix (4/1/68)	1622.29	1602.33	1615.94	1698.67 3/9/93	1250.06 25/1/93
2nd Section (4/1/68)	2196.02	2187.52	2195.57	2384.97 7/6/93	1651.72 26/1/93
Malaysia					
KLSE Comp.(4/4/86)	1064.34	1070.58	1066.25	1314.46 5/1/94	614.29 13/1/93

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	2168.0	2183.0	+21.0	2187.0	2160.0	19,929	51,983
Apr	2178.0	2193.5	+21.5	2193.0	2177.0	87	1,790
May	2192.5	2198.0	+21.0	2192.5	2192.5	-	625

Open interest figures for previous day.

US INDICES

NYSE Comp.	257.70	256.86	257.47	267.71 (2/2/94)	236.21 (8/1/93)	267.71 (2/2/94)	4.46 (28/4/42)
Amex Mkt Val	466.40	465.65	466.32	487.89 (2/2/94)	395.84 (8/1/93)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	790.55	784.58	783.47	800.47 (31/1/94)	645.87 (26/4/93)	800.47 (31/1/94)	54.87 (31/10/72)

■ RATIOS

	Feb 25	Feb 18	Feb 11	Year ago
Dow Jones Ind. Div. Yield	2.62	2.59	2.58	3.02
	Mar 2	Feb 23	Feb 16	Year ago
S & P Ind. Div. yield	2.39	2.36	2.34	2.53
S & P Ind. P/E ratio	24.34	28.09	26.18	26.66

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	463.20	464.50	+1.70	466.40	461.90	164,190	159,703
Jun	465.00	465.90	+1.75	467.75	463.40	-	-
Sep	466.90	467.85	+1.80	469.50	465.60	-	-

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Telefonos	4,231,100	67⅞	+⅞
Tucson El	4,064,300	3⅞	—
Intl Game	3,962,900	32⅝	+3⅜
Salomon In	3,504,300	49¾	+½
Chrysler	3,136,200	59⅜	+1⅝
Merck	3,007,500	31	-⅛
Gen Motors	3,008,300	62	+1½
Progress	2,888,800	33⅜	-⅛
Amer T & T	2,674,400	51⅜	+⅛
Circ City	2,453,900	22⅞	+3⅜

■ TRADING ACTIVITY

● Volume (million)

	Mar 5	Mar 3	Mar 2
New York SE	311,870	282,995	361.125
Amex	18.852	20.818	24.740
NASDAQ	(u)	318.358	328.838
NYSE			
Issues Traded	2,752	2,738	2,766
Rises	1,278	943	771
Falls	807	1,171	1,426
Unchanged	668	624	569
New Highs	64	57	25
New Lows	54	65	178

* Sat Feb 26. Taiwan Weighted Price 5590.27; Korea Comp Ex 926.31. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Mar 4 - 2076.70 +32.31

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set at the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071-379-0444.

هكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

OTHER UK UNIT TRUSTS

INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

Royal Liver Assurance - Contd.

S-E-Banken Life Assurance Co Ltd

Save & Prosper Group

Scottish Amicable

Scottish Equitable plc

Scottish Life Assurance

Scottish Mutual Assurance plc

Scottish Provident Group

Scottish Widows' Group

Skandia Life Assurance Co Ltd

Skandia Life Assurance Co Ltd - Contd.

Standard Life Assurance Company

Sun Alliance Group

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

Target Life Assurance Co Ltd

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

Professional Investment Consultants

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Albany International Assurance Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

GUERNSEY (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 6 digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on 071-873 4378.

	Bid Price	Offer Price	Yield Gross	City-Line
Greece Fund Ltd				
NAV Mar 2	$22.53		–	40990
John Govett Management (Jersey) Ltd				
Paragon Fd NAV Feb 28	$10.30		–	[illegible]
Hungarian Inv Co Jan 31	$118.18		–	[illegible]
Govett India Fund	$11.42	11.84	–	[illegible]
Taiwan Capital	[illegible]	9.47	–	52230
INVESCO International Limited				
All Funds deal daily except where indicated.				
American Equity UK	[illegible]	[illegible]	3.08	[illegible]
Japan UK & Gwth	[illegible]	[illegible]	1.42	[illegible]
Apollo Fd Mar 2	[illegible]	[illegible]	–	46473
*Weekly Dealing. †Fortnightly Dlng. **Monthly Dlng.				
Jupiter Tyndall (Jersey) Ltd				
Gilt Fd	125.9	132.3	7.00	[illegible]
(Accum Shares)	[illegible]	[illegible]	7.36	[illegible]
Managed Currency Stg	124	131	–	[illegible]
International	493	518	0.23	[illegible]
Lloyds Bank Trust Co (CI) Mngrs				
Lloydstrust World Inv Port	£3.153	3.354	[illegible]	40125
Dealing Weekly on Thursday				
Lombard Odier (Jersey) Ltd				

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Creavale Group (u)						
11 Rue Aldringen, L-1118 Luxembourg						071-387 8400
Hedge Fund			$1.44		–	[illegible]
DB Investment Management SA						
Den norske Bank						
2 boulevard Royal, Lux						010 352 4590 3271
Dias Income Fund						
Dolphin Intl Investments (z) SICAV						
14 rue Aldringen, L-1118 Luxembourg						0534 27391
Dresdnerbank Asset Mngmt SA (u)						
E.T. Investment Management Ltd						
13 Rue Goethe, BP 413, Luxembourg						010 352 4046461
Eagle Star – Global Assets Fund (u)						
6 Rue Adringen L-1118 Luxembourg						

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Mar 4		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.0142	+0.0361	074 - 209	18.0342	17.8884	18.0104	0.3	18.0048	0.2	-	-	113.4
Belgium	(BFr)	52.7696	+0.1177	311 - 084	52.8089	52.5113	52.8298	-1.4	52.9198	-1.1	53.2548	-0.9	114.2
Denmark	(DKr)	10.0152	+0.0282	098 - 206	10.0208	9.9703	10.0267	-1.4	10.0457	-1.2	10.0816	-0.7	114.4
Finland	(FM)	8.2916	+0.0169	829 - 006	8.3006	8.2610	-	-	-	-	-	-	81.6
France	(FFr)	8.7113	+0.0245	061 - 164	8.7164	8.6771	8.721	-1.3	8.7354	-1.1	8.7689	-0.7	108.0
Germany	(DM)	2.5629	+0.0063	621 - 637	2.5684	2.5436	2.5662	-1.1	2.5681	-0.8	2.5725	-0.4	122.3
Greece	(Dr)	371.987	+0.546	606 - 327	372.327	369.560	-	-	-	-	-	-	-
Ireland	(I£)	1.0421	-0.0016	412 - 430	1.0463	1.0380	1.0431	-1.2	1.0451	-1.2	1.0527	-1.0	102.8
Italy	(L)	2516.36	+1.82	482 - 790	2520.52	2508.01	2523.81	-3.6	2537.81	-3.4	2593.36	-3.1	75.8
Luxembourg	(LFr)	52.7696	+0.1177	311 - 084	52.8089	52.5113	52.8298	-1.4	52.9198	-1.1	53.2548	-0.9	114.2
Netherlands	(Fl)	2.8762	+0.0072	750 - 774	2.8787	2.8651	2.8771	-0.4	2.8775	-0.2	2.8716	0.2	117.5
Norway	(NKr)	11.1046	+0.025	012 - 080	11.1356	11.0632	11.099	0.8	11.1116	-0.2	11.1027	0.0	84.5
Portugal	(Es)	262.061	+0.669	793 - 328	262.328	260.527	263.036	-4.5	264.981	-4.5	-	-	-
Spain	(Pta)	210.178	+0.959	090 - 265	210.031	208.777	210.803	-3.6	211.873	-3.2	216.276	-2.9	84.5
Sweden	(SKr)	11.9448	-0.0084	370 - 522	11.9718	11.8987	11.9671	-2.3	12.0011	-1.9	12.1166	-1.4	78.0
Switzerland	(SFr)	2.1488	+0.0073	478 - 497	2.1524	2.1386	2.1473	0.8	2.1436	1.0	2.1245	1.1	118.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	81.2
Ecu	-	1.3242	+0.0021	236 - 247	1.3252	1.3189	1.3269	-1.5	1.3295	-1.3	1.3353	-0.8	-
SDR†	-	0.939371	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.4896	-0.0043	896 - 902	1.4959	1.4874	-	-	-	-	-	-	-
Brazil	(Cr)	1010.17	+12.261	998 - 036	1014.00	995.000	-	-	-	-	-	-	-
Canada	(C$)	2.0252	-0.0002	245 - 259	2.0261	2.0155	2.0231	1.3	2.0197	1.1	2.0177	0.4	88.9
Mexico	(New Peso)	4.8285	-0.0152	202 - 367	4.8367	4.8202	-	-	-	-	-	-	-
USA	($)	1.4903	-0.0047	900 - 905	1.4969	1.4850	1.4885	1.4	1.4855	1.3	1.4793	0.7	66.6
Pacific/Middle East/Africa													
Australia	(A$)	2.0865	-0.0299	854 - 875	2.1186	2.0833	2.085	0.9	2.0828	0.7	2.0807	0.3	-
Hong Kong	(HK$)	11.5159	-0.0366	132 - 185	11.5684	11.4933	11.5029	1.4	11.4875	6.6	11.4484	0.8	-
India	(Rs)	46.7902	-0.1961	786 - 017	47.0590	46.7280	-	-	-	-	-	-	-
Japan	(Y)	157.244	+1.672	165 - 322	157.322	154.900	156.874	2.8	156.104	2.9	152.889	2.8	185.7
Malaysia	(M$)	4.0595	-0.0116	573 - 616	4.0759	4.0533	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6015	-0.0224	994 - 035	2.6192	2.5976	2.6044	-1.3	2.6067	-1.1	2.6173	-0.6	-
Philippines	(Peso)	41.2055	-0.2047	750 - 359	41.8160	40.9750	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.5881	-0.0175	869 - 892	5.6128	5.5807	-	-	-	-	-	-	-
Singapore	(S$)	2.3616	-0.003	602 - 624	2.3696	2.3555	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.1796	-0.0068	776 - 817	5.1989	5.1704	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.8867	-0.0404	801 - 973	6.9157	6.8697	-	-	-	-	-	-	-
South Korea	(Won)	1202.33	-3.86	163 - 288	1207.40	1200.82	-	-	-	-	-	-	-
Taiwan	(T$)	39.3799	-0.1615	658 - 939	39.5900	39.3300	-	-	-	-	-	-	-
Thailand	(Bt)	37.7163	-0.099	970 - 395	37.8510	37.6760	-	-	-	-	-	-	-

†SDR rate for Mar 3. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.0880	+0.0635	855 - 905	12.0905	12.0260	12.1067	-1.9	12.138	-1.7	12.1855	-0.8	102.7
Belgium	(BFr)	35.4100	+0.19	900 - 300	35.4300	35.2340	35.495	-2.9	35.63	-2.5	36.01	-1.7	103.9
Denmark	(DKr)	6.7205	+0.04	180 - 230	6.7230	6.6793	6.7367	-2.9	6.7632	-2.5	6.8905	-2.7	103.3
Finland	(FM)	5.5640	+0.0248	590 - 690	5.5690	5.5351	5.5692	-1.1	5.5772	-1.0	5.594	-0.5	78.4
France	(FFr)	5.8455	+0.0347	430 - 480	5.8480	5.8122	5.8594	-2.9	5.881	-2.4	5.9295	-1.4	104.4
Germany	(D)	1.7196	+0.011	195 - 200	1.7200	1.7015	1.7236	-2.8	1.729	-2.1	1.7385	-1.1	104.1
Greece	(Dr)	249.600	+1.15	400 - 800	249.800	247.280	253.2	-17.3	260.1	-16.8	289.6	-16.0	70.9
Ireland	(I£)	1.4300	-0.0024	290 - 310	1.4408	1.4252	1.4266	2.9	1.421	2.5	1.4033	1.8	-
Italy	(L)	1688.55	+6.52	780 - 930	1699.30	1683.00	1695.7	-5.1	1708.55	-4.7	1753.55	-3.8	76.3
Luxembourg	(LFr)	35.4100	+0.19	900 - 300	35.4300	35.2300	35.495	-2.9	35.63	-2.5	36.01	-1.7	103.9
Netherlands	(Fl)	1.9300	+0.0109	295 - 305	1.9305	1.9201	1.933	-1.9	1.9373	-1.5	1.944	-0.7	103.3
Norway	(NKr)	7.4515	+0.0402	505 - 525	7.4525	7.4103	7.4612	-1.6	7.4802	-1.5	7.4905	-0.5	94.5
Portugal	(Es)	175.850	+1	700 - 000	176.000	174.900	176.77	-6.3	178.44	-5.9	184.15	-4.7	93.2
Spain	(Pta)	141.035	+1.095	000 - 070	141.070	140.080	141.68	-5.1	142.64	-4.6	146.235	-3.7	80.1
Sweden	(SKr)	8.0152	+0.0196	114 - 189	8.0189	7.9802	8.0407	-3.8	8.0797	-3.2	8.1937	-2.2	81.2
Switzerland	(SFr)	1.4419	+0.0094	415 - 423	1.4427	1.4345	1.4426	-0.6	1.4432	-0.4	1.4367	0.4	104.9
UK	(£)	1.4903	-0.0047	900 - 905	1.4969	1.4880	1.4886	1.4	1.4855	1.3	1.4793	0.7	90.0
Ecu	-	1.1255	-0.0053	252 - 257	1.1302	1.1252	1.1226	3.0	1.1161	2.8	1.1074	1.6	-
SDR†	-	1.40079	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	+0.0003	997 - 998	0.9998	0.9994	-	-	-	-	-	-	-
Brazil	(Cr)	677.850	+10.33	840 - 860	677.875	677.840	-	-	-	-	-	-	-
Canada	(C$)	1.3590	+0.0042	587 - 592	1.3592	1.3512	1.3593	-0.3	1.3596	-0.2	1.3645	-0.4	86.2
Mexico	(New Peso)	3.2400	-	350 - 450	3.2450	3.2350	3.2418	-0.6	3.2444	-0.5	3.265	-0.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	100.6
Pacific/Middle East/Africa													
Australia	(A$)	1.4001	-0.0156	996 - 006	1.4156	1.3966	1.4011	-0.9	1.404	-1.1	1.4118	-0.8	86.5
Hong Kong	(HK$)	7.7275	-0.0004	270 - 280	7.7299	7.7265	7.7282	-0.1	7.7322	-0.2	7.761	-0.3	-
India	(Rs)	31.3975	-0.0325	950 - 000	31.4300	31.3850	31.4625	-2.5	31.5975	-2.5	-	-	-
Japan	(Y)	105.515	+1.45	480 - 550	105.550	103.620	105.4	1.3	105.1	1.6	103.35	2.1	148.6
Malaysia	(M$)	2.7240	+0.0007	230 - 250	2.7260	2.7230	2.718	2.6	2.7015	3.3	2.774	-1.8	-
New Zealand	(NZ$)	1.7457	-0.0095	448 - 467	1.7522	1.7446	1.7473	-1.1	1.7518	-1.4	1.766	-1.2	-
Philippines	(Peso)	27.6500	-0.05	000 - 000	27.6500	27.5000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7498	+0.0001	496 - 499	3.7502	3.7496	3.7522	-0.8	3.7566	-0.7	3.7753	-0.7	-
Singapore	(S$)	1.5845	+0.003	840 - 850	1.5850	1.5811	1.5845	0.0	1.5845	0.0	1.606	-1.5	-
S Africa (Com.)	(R)	3.4758	+0.007	750 - 765	3.4776	3.4695	3.4901	-4.9	3.5181	-5.0	3.6163	-4.0	-
S Africa (Fin.)	(R)	4.6225	-0.0125	175 - 275	4.6275	4.6000	4.6535	-8.0	4.7175	-8.2	-	-	-
South Korea	(Won)	806.800	-0.05	600 - 000	807.400	806.600	809.8	-4.5	813.3	-3.2	831.8	-3.1	-
Taiwan	(T$)	26.4250	-0.025	200 - 300	26.4400	26.4200	26.5275	-4.7	26.675	-3.8	-	-	-
Thailand	(Bt)	25.3100	+0.02	000 - 200	25.3200	25.2900	25.38	-3.3	25.52	-3.3	25.66	-1.4	-

†SDR rate for Mar 3. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan indices shown for Mar 3. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 4		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.99	16.51	4.857	1.975	4768	5.450	21.03	496.7	398.3	22.63	4.072	1.895	3.837	2.824	297.9	2.509
Denmark	(DKr)	52.66	10	8.694	2.558	1.040	2511	2.870	11.08	261.6	209.8	11.92	2.146	0.998	2.021	1.487	156.9	1.321
France	(FFr)	60.58	11.50	10	2.942	1.196	2888	3.302	12.74	300.9	241.3	13.71	2.467	1.148	2.325	1.710	180.5	1.520
Germany	(DM)	20.59	3.909	3.399	1	0.407	981.7	1.122	4.331	102.3	82.01	4.659	0.838	0.390	0.790	0.581	61.35	0.517
Ireland	(I£)	50.64	9.616	8.360	2.460	1	2416	2.760	10.65	251.6	201.7	11.46	2.062	0.960	1.943	1.430	150.9	1.271
Italy	(L)	2.097	0.398	0.346	0.102	0.041	100.	0.114	0.441	10.42	8.355	0.475	0.085	0.040	0.080	0.059	6.248	0.053
Netherlands	(Fl)	18.35	3.484	3.029	0.891	0.362	874.8	1	3.860	91.13	73.09	4.152	0.747	0.348	0.704	0.518	54.66	0.460
Norway	(NKr)	47.54	9.027	7.848	2.309	0.939	2267	2.591	10	236.1	189.4	10.76	1.936	0.901	1.824	1.342	141.5	1.193
Portugal	(Es)	20.13	3.823	3.324	0.978	0.398	959.9	1.097	4.235	100.	80.20	4.556	0.820	0.382	0.773	0.568	59.96	0.505
Spain	(Pta)	25.18	4.767	4.144	1.210	0.496	1197	1.368	5.281	124.7	100.	5.680	1.022	0.476	0.963	0.709	74.79	0.630
Sweden	(SKr)	44.20	8.392	7.296	2.147	0.873	2107	2.409	9.296	219.5	176.0	10	1.800	0.838	1.696	1.248	131.7	1.109
Switzerland	(SFr)	24.56	4.663	4.054	1.193	0.485	1171	1.338	0.165	122.0	97.81	5.556	1	0.465	0.942	0.693	73.15	0.616
UK	(£)	52.77	10.02	8.711	2.563	1.042	2516	2.876	11.10	262.1	210.2	11.94	2.149	1	2.025	1.490	157.2	1.324
Canada	(C$)	26.06	4.948	4.302	1.266	0.515	1242	1.420	5.481	129.4	103.8	5.896	1.061	0.494	1	0.736	77.63	0.654
US	($)	35.42	6.725	5.846	1.720	0.699	1689	1.930	7.450	175.9	141.1	8.013	1.442	0.671	1.359	1	105.5	0.889
Japan	(Y)	335.7	63.74	55.41	16.30	6.626	16005	18.30	70.61	1667	1337	75.95	13.67	6.361	12.88	9.478	1000.	8.422
Ecu		39.86	7.568	6.579	1.936	0.787	1900	2.172	8.384	198.0	158.8	9.018	1.623	0.755	1.529	1.125	118.7	1

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.5842	0.5814	-0.0035	0.5845	0.5804	63,200	107,987
Jun	0.5818	0.5785	-0.0034	0.5816	0.5774	22,894	34,428
Sep	0.5795	0.5766	-0.0033	0.5795	0.5760	26	2,417

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.6956	0.6937	-0.0010	0.6972	0.6921	17,739	43,749
Jun	0.6942	0.6933	-0.0010	0.6957	0.6920	2,057	8,036
Sep	-	0.6938	-0.0020	0.6958	0.6929	8	91

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	0.9646	0.9489	-0.0159	0.9657	0.9460	24,589	86,893
Jun	0.9672	0.9529	-0.0160	0.9680	0.9492	6,057	12,510
Sep	0.9605	0.9579	-0.0162	0.9605	0.9555	74	1,166

STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	1.4946	1.4884	-0.0072	1.4946	1.4864	14,629	30,616
Jun	1.4974	1.4852	-0.0068	1.4906	1.4802	1,201	13,988
Sep	-	1.4826	-0.0062	1.4826	1.4810	14	480
Dec	-	1.4818	-0.0056	-	1.4800	18	16

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
1.400	8.57	8.48	8.59	0.02	0.09	0.24
1.425	6.12	6.21	6.43	0.02	0.21	0.58
1.450	3.68	4.12	4.54	0.04	0.61	1.16
1.475	1.81	2.47	2.97	0.29	1.39	2.07
1.500	0.26	1.27	1.85	1.53	2.64	3.33
1.525	0.02	0.57	1.05	3.87	4.42	5.02

Previous day's vol., Calls 15,508 Puts 16,818. Prev. day's open int., Calls 614,854 Puts 551,745

UK INTEREST RATES

LONDON MONEY RATES

Mar 4	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 4¼	6 - 4⅞	5¼ - 5	5⅛ - 5	5⅛ - 5⅛	5¼ - 5⅛
Sterling CDs	-	5⅛ - 5⅛	5⅛ - 5⅛	5⅛ - 5	5⅛ - 5	5⅛ - 5⅛
Treasury Bills	-	-	4⅞ - 4⅞	4¾ - 4⅝	-	-
Bank Bills	-	-	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞	-
Local authority deps.	4⅞ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 5	5⅛ - 5⅛
Discount market deps.	7 - 4⅞	5¼ - 5	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from February 8, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3½	3½	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 4.7761pc. ECGD fixed rate Stg. Export Finance. Make up day February 28, 1994. Agreed rate for period Mar 26, 1994 to Apr 25, 1994, Schemes II & III 6.50pc. Reference rate for period Feb 1, 1994 to Feb 28, 1994, Schemes IV & V 5.286pc. Finance House Base Rate 5½pc from Mar 1, 1994

BANK OF ENGLAND TREASURY BILL TENDER

	Mar 4	Feb 25		Mar 4	Feb 25
Bills on offer	£200m	£200m	Top accepted rate	4.8132%	4.7729%
Total of applications	£889m	£659m	Ave. rate of discount	4.7761%	4.7128%
Total allocated	£200m	£200m	Average yield	4.8357%	4.7689%
Min. accepted bid	£98.800	£98.825	Offer at next tender	£200m	£200m
Allotment at min. level	62%	95%	Min. accept. bid 182 days	-	-

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on page 25 in today's edition.

Pound in New York

Mar 4	— Close —	— Prev. close —
£ spot	1.4900	1.4960
1 mth	1.4881	1.4942
3 mth	1.4854	1.4911
1 yr	1.4808	1.4850

FIXED INTEREST RATES

MONEY RATES

March 4	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	-	6¾	6¾	6¾	6⅛	7.40	5.00	-
week ago	-	6¾	6⅞	6¾	6¼	7.40	5.00	-
France	6¾	6¾	6½	6¼	6	6.10	-	7.75
week ago	6¾	6¾	6½	6½	5⅞	6.18	-	7.75
Germany	6.00	6.07	5.88	5.72	5.52	6.75	5.25	5.97
week ago	6.46	6.07	5.85	5.66	5.37	6.75	5.25	6.00
Ireland	6½	6¼	6¾	6¾	6¾	-	-	6.75
week ago	6⅞	6¼	5⅞	2⅞	6⅞	-	-	6.75
Italy	8½	8¾	8¾	8⅛	8⅛	-	0.00	8.92
week ago	6⅞	8¾	8⅛	8⅛	8¼	-	6.00	8.92
Netherlands	5.59	5.46	5.31	5.24	5.16	-	5.25	-
week ago	5.61	5.48	5.38	5.25	0.11	-	5.25	-
Switzerland	4⅛	4¼	4⅛	4⅛	4	6.625	4.00	-
week ago	4¼	4¼	4⅛	4¼	4⅛	6.625	4.00	-
US	3⅛	3⅛	3⅞	4⅛	4½	-	3.00	-
week ago	3⅛	3⅛	3⅞	3⅞	4¼	-	3.00	-
Japan	2⅛	2¼	2¼	2⅛	2¼	-	1.75	-
week ago	2⅛	2¼	2⅛	2⅛	2⅛	-	1.75	-
$ LIBOR FT London								
Interbank Fixing	-	3¾	3⅞	4⅛	4½	-	-	-
week ago	-	3¾	3¾	4	4⅛	-	-	-
US Dollar CDs	-	3.48	3.68	3.95	4.34	-	-	-
week ago	-	3.48	3.59	3.82	4.20	-	-	-
SDR Linked Ds	-	3¾	3¾	3¾	4	-	-	-
week ago	-	3¾	3¾	3¾	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 6⅛; 3 mths: 6¼; 6 mths: 6⅛; 1 year: 5. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 4	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	6⅞ - 6⅛	6⅞ - 6⅛	6⅞ - 6⅛	6⅜ - 6¼	6⅜ - 6¼	6⅛ - 6⅛
Danish Krone	6¼ - 5¾	6½ - 6	6½ - 6	6⅛ - 6⅛	6⅛ - 5⅞	6⅞ - 5⅝
D-Mark	6⅛ - 6	6⅛ - 6	6⅛ - 6	5⅞ - 5¾	5¾ - 5⅝	5⅞ - 5⅞
Dutch Guilder	5⅝ - 5½	5⅞ - 5⅞	5½ - 5⅜	5⅞ - 5⅞	5¼ - 5⅛	5⅞ - 5⅛
French Franc	6⅞ - 6⅛	6⅞ - 6⅞	6⅜ - 6¼	6⅛ - 6⅛	6⅛ - 6⅛	6⅛ - 6⅞
Portuguese Esc.	18 - 9¾	10¼ - 9¾	10⅛ - 9¾	9⅞ - 9⅝	9⅝ - 9⅞	9⅝ - 9¼
Spanish Peseta	8½ - 8⅛	8½ - 8⅛	8½ - 8⅛	8⅞ - 8¼	8⅞ - 8¼	8¼ - 8⅛
Sterling	5⅜ - 5¼	5¼ - 5⅛	5¼ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛	5⅞ - 5⅞
Swiss Franc	4½ - 4⅜	4½ - 4⅜	4⅜ - 4¼	4¼ - 4⅛	4⅛ - 3⅞	3⅞ - 3⅞
Can. Dollar	3⅝ - 3½	3⅞ - 3⅝	3⅞ - 3⅞	4⅛ - 3⅞	4⅜ - 4¼	4⅞ - 4¾
US Dollar	3¼ - 3⅛	3⅜ - 3¼	3⅝ - 3½	3⅞ - 3¾	4⅛ - 4	4⅞ - 4⅛
Italian Lira	8 - 7½	8⅜ - 7⅞	8½ - 8	8½ - 8	8⅜ - 8	8¼ - 8⅛
Yen	2⅛ - 2⅛	2⅛ - 2⅛	2⅛ - 2⅛	2⅛ - 2⅛	2⅛ - 2⅛	2⅛ - 2⅛
Asian $Sing	3½ - 2½	3½ - 2½	3½ - 2½	4 - 3	4 - 3	4¼ - 3¼

Short term rates are call for the US Dollar and Yen, others: two days' notice.

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.15	96.11	-0.04	96.18	96.07	61,540	307,672
Jun	95.72	95.66	-0.05	95.72	95.60	130,898	450,965
Sep	95.34	95.29	-0.06	95.40	95.23	106,307	363,356

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	96.53	+0.02	-	-	4,412	425
Jun	96.14	96.07	-0.07	96.14	96.04	2,411	27,209
Sep	95.80	95.74	-0.07	95.80	95.71	260	5,715

All Open interest figs. are for previous day

BANK RETURN

BANKING DEPARTMENT	Wednesday March 2, 1994	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,067,518,364	-970,396,331
Bankers deposits	1,564,184,532	+14,846,106
Reserve and other accounts	5,610,906,919	-211,056,708
	8,257,162,815	-1,166,606,931
Assets		
Government securities	1,008,037,426	-413,166,325
Advances and other accounts	6,782,896,160	-752,364,858
Premises, equipment and other secs.	463,553,093	+280,811
Notes	4,465,567	-1,344,060
Coin	210,096	+7,610
	8,257,162,815	-1,166,606,931
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	17,205,534,433	+101,344,060
Notes in Banking Department	4,465,567	-1,344,060
	17,210,000,000	+100,000,000
Assets		
Government debt	11,015,100	
Other Government securities	5,586,869,238	+308,418,535
Other Securities	11,611,968,586	-208,418,535
	17,210,000,000	+100,000,000

STOCK EXCHANGES

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRI MAR 4 US Dollar Index	%chg since 31/12/93	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/93	Gross Div. Yield	THU MAR 3 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1993/94 High	1993/94 Low	Year ago (approx)
Australia (69)	170.62	2.4	169.95	113.94	152.73	159.07	-2.7	3.35	171.46	170.05	112.79	152.33	161.48	189.15	130.16	135.00
Austria (17)	165.34	0.2	164.39	123.62	165.71	165.44	-0.7	0.96	166.01	164.47	122.36	165.24	165.16	195.41	139.83	150.75
Belgium (42)	164.44	1.1	163.58	109.66	147.02	143.59	-1.0	4.00	164.24	162.88	108.04	145.90	142.65	169.06	141.66	141.94
Canada (107)	134.62	-0.9	133.92	89.79	120.36	132.47	1.8	2.54	134.17	133.06	88.26	119.20	131.63	145.31	121.46	121.93
Denmark (32)	263.71	0.7	262.35	175.89	235.76	241.04	5.5	0.96	261.69	259.53	172.14	232.46	237.77	275.79	196.86	203.96
Finland (22)	149.00	20.9	148.23	99.36	133.21	173.98	16.2	0.66	148.05	146.83	97.39	131.53	172.11	158.72	70.02	75.20
France (99)	173.78	-1.3	172.86	115.89	155.35	159.32	-2.2	2.92	173.10	171.67	113.86	153.78	157.78	185.37	149.60	158.63
Germany (59)	129.49	-7.7	128.83	86.37	115.76	115.76	-8.6	1.83	129.25	128.19	85.02	114.83	114.83	142.38	107.59	113.83
Hong Kong (56)	403.60	-17.5	401.53	269.20	360.86	400.42	-17.5	2.62	397.47	394.19	261.45	353.12	394.36	506.55	239.84	260.86
Ireland (14)	188.26	1.8	187.30	125.57	168.33	186.51	0.2	3.20	187.28	185.75	123.20	166.36	184.23	209.33	137.81	141.93
Italy (69)	73.13	6.6	72.75	48.76	65.38	92.22	5.2	1.83	73.06	72.48	48.07	64.92	91.80	78.93	55.21	64.28
Japan (469)	154.17	16.6	153.38	102.88	137.84	102.88	12.0	0.79	154.35	153.07	101.53	137.13	101.53	165.91	107.98	108.68
Malaysia (69)	500.98	-15.3	498.40	334.14	447.92	525.68	-14.4	1.40	504.79	500.53	332.00	448.38	529.34	621.63	274.40	277.06
Mexico (18)	2261.31	-5.3	2249.67	1508.23	2021.76	8010.58	-1.2	0.63	2258.44	2239.76	1485.62	2006.36	8000.41	2547.06	1431.17	1518.22
Netherland (26)	197.16	-1.0	196.15	131.50	176.26	173.67	-1.6	3.07	198.06	196.42	130.29	175.96	173.48	207.43	161.44	182.71
New Zealand (14)	68.72	1.2	68.37	45.83	61.44	63.70	-1.2	3.65	69.45	68.87	45.68	61.70	64.72	77.59	45.22	45.22
Norway (23)	197.97	10.2	196.95	132.04	177.00	200.23	9.2	1.57	201.12	199.45	132.30	178.67	202.31	206.42	140.16	140.16
Singapore (45)	331.86	-9.7	330.15	221.34	296.71	242.32	-11.1	1.86	332.30	329.56	218.59	295.22	242.18	378.92	213.57	223.79
South Africa (60)	254.26	-4.8	252.96	169.59	227.33	256.89	2.5	2.16	248.93	246.87	163.75	221.15	252.10	280.26	160.76	160.78
Spain (42)	143.80	3.2	143.06	95.91	128.57	153.64	1.8	3.81	142.49	141.32	93.78	126.59	151.06	165.79	118.33	126.87
Sweden (36)	215.76	9.9	214.65	143.91	192.91	256.01	5.7	1.46	214.09	212.33	140.83	190.20	253.41	230.02	154.79	164.87
Switzerland (49)	161.97	1.1	161.13	108.03	144.81	144.79	-1.6	1.55	159.23	157.91	104.74	141.46	141.41	176.56	111.01	113.09
United Kingdom (215)	200.54	-2.2	199.51	133.79	179.30	199.51	-2.9	3.64	199.28	197.64	131.09	177.05	197.64	214.96	168.46	170.26
USA (518)	169.04	-0.5	168.07	126.06	169.01	169.04	-0.5	2.79	168.39	166.93	123.92	167.86	168.39	196.04	176.91	182.86
EUROPE (746)	167.80	-0.4	166.94	111.92	150.08	161.36	0.9	2.83	166.93	165.55	109.81	148.29	159.78	176.58	138.86	141.00
Nordic (113)	209.54	10.6	208.46	139.76	187.35	216.56	7.3	1.24	208.31	206.59	137.03	185.06	214.48	220.60	145.85	152.38
Pacific Basin (722)	163.63	12.8	152.79	109.14	146.30	113.59	7.4	1.06	163.70	162.36	107.86	145.43	112.87	168.80	113.99	114.61
Euro-Pacific (1467)	165.21	8.5	164.36	110.19	147.71	132.34	4.7	1.61	164.69	163.53	108.47	146.46	130.96	170.78	124.48	125.28
North America (625)	185.66	-0.4	184.70	123.83	165.99	185.13	-0.5	2.76	185.02	183.49	121.71	164.37	184.47	192.78	173.78	178.89
Europe Ex. UK (530)	147.02	-0.4	146.26	98.06	131.44	138.91	3.7	2.32	146.35	145.14	96.27	130.01	127.48	155.73	120.02	122.66
Pacific Ex. Japan (253)	255.82	-10.8	254.51	170.63	228.76	234.70	-12.1	2.57	254.94	252.83	167.70	226.49	234.65	298.21	164.34	172.76
World Ex. US (1652)	166.64	6.0	165.78	111.14	148.99	136.69	4.4	1.82	166.26	164.88	109.36	147.70	134.20	172.51	125.88	126.39
World Ex. UK (1955)	170.49	4.0	169.56	113.67	152.38	147.78	3.3	2.01	170.04	168.63	111.85	151.06	146.84	175.58	141.21	141.91
World Ex. So. Af. (2110)	173.50	3.7	171.71	115.12	154.32	151.49	2.6	2.17	172.17	170.74	113.25	152.95	150.33	175.58	143.71	144.39
World Ex. Japan (1701)	185.05	-1.4	184.18	123.43	165.45	161.23	-0.7	2.75	184.25	182.73	121.20	163.69	180.18	195.20	163.82	164.81
The World Index (2170)	173.07	3.6	173.18	115.44	164.74	152.33	2.6	2.17	172.60	171.16	113.54	163.54	151.13	178.97	143.74	144.39

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

STOCK INDICES

[illegible]

GOLD MINES INDEX

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

BASE LENDING RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

LONDON SHARE SERVICE

BANKS

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£17¼	1.5	Q375c	♦	Oct Apr	22.3	–
Barlow		847½	1.5	Q173c	1.7	Jan Jul	13.12	–
Gold Fields SA R		£13½	3.3	Q280c	1.5	Mar Sep	31.1	2717
MK Props		95	-2.2	Q44.7c	0.9	Feb Oct	18.10	–
SASOL	♥	337	5.6	078c	–	Oct	23.9	3019
SA Brews		£12¼	2.2	Q336c	2.2	Dec Jun	13.12	4113
Tiger Oats		739	2.5	082c	2.9	Jan Feb	29.11	–
Tongaat-Hulett	†	593	6.6	076c	2.4	Feb Aug	4.1	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsetable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Rosemont (Bldg Matl & Mer), Int'l Musto (Extractive Inds), Shoprite 7⅝pc Pf 2009 (Retailers, Food), Coda (Support Servs) and Slimma (Textiles & Appr). Deletions: Govett Emrg Mkt C (Inv Trusts) and Nu-Swift (Support Servs).

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring 081 770 0770 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT8485. [If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822] Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 36p per minute cheap rate and 48p per minute at all other times.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

4 pm close March 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993/94 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
16⅝	11½	AAR	0.48	3.0	537	225	16¼	16	16⅛	+⅛
29⅜	13¾	A L Labs A	0.16	1.2	35	718	15½	14⅞	15⅜	+⅛
67¼	54⅝	AMP	1.68	2.6	22	2132	64¾	64	64⅝	+⅛
72¾	55½	AMR			29	3914	61⅛	60½	60½	-¾
5	1¾	ARX			16	300	4¾	4⅝	4¾	+¼
58⅛	29⅞	ASA	2.00	4.4	20	308	45½	45⅛	45¼	-⅛
33¾	22⅝	AbbotL	0.76	2.0	15	10251	27	26½	26⅝	-⅛
13⅞	8¼	AbitibiPr	0.56	4.0	6	40	12⅝	12⅜	12⅝	+⅛
16⅝	8¼	Acptncein			25	9	12	12	12	-⅛
36	25½	ACE Ltd	0.60	1.5	4	1332	29¾	29½	29⅝	-⅛
12⅜	10¾	ACM Gvt In	1.90	9.4		595	11⅜	11½	11⅜	
10⅛	6⅞	ACM GvOpp x	0.60	0.7		41	9⅛	9	9⅛	
10⅝	8¾	ACM Gvt Sp x	0.96	10.1		364	9½	9⅜	9½	
12¾	10½	ACM Gvt Sg x	1.09	10.2		153	10⅞	10⅝	10¾	
12¼	9⅞	ACM Man x	1.08	10.0		300	10⅞	10¾	10¾	-⅛
9⅞	8⅛	ACM Mangd	0.72	8.2		113	8⅞	8¾	8¾	
12⅞	7¼	AcmeClv	0.44	4.6	11	526	9⅝	9⅝	9⅝	-⅛
11⅛	6⅜	Acme Elect			56	23	7⅞	7¾	7¾	-⅛
27⅝	18⅝	Acordia x	0.60	2.2	13	30	27	27	27	+⅛
9¼	6¾	Actava	0.36	5.4	13	1670	7	6¾	6⅝	-⅛
18	16⅞	Acuson			92	68	12⅛	12	12	-⅛
21¾	17½	Adams Expr	0.36	2.1	8	115	17¾	17½	17½	-⅛
68¼	49½	Ad Micro x	3.00	5.7		313	53½	52⅛	52⅜	-⅜
32¾	18¾	AdvMic	3.00	16.8	18	13283	24⅛	22⅞	23⅞	-⅞
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close March 4

NYSE COMPOSITE PRICES

1993/94 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
24¾	13⅛	SftyK	0.36	2.4	6	1086	15⅛	14⅞	14⅞	
28¾	10⅞	Safeway			26	3655	26⅛	25⅞	26	+⅛
8¼	2	SafewayWt95				341	u8¼	6	6⅛	+⅛
55½	37½	StJoePaper	0.20	0	42	79	21	53	52⅝	52⅞ +¼
37⅞	28	StJosLtP	1.80	6.1	14	21	29½	29⅜	29⅝ +⅛	
98	75	StPaul	3.00	3.7	9	757	81⅛	80¼	80½	-¼
11¾	6⅛	Salant Crp			19	96	8½	8⅛	8¼	-⅛
75¼	39⅞	Sallie Mae	1.40	3.2	0	5288	44½	43⅝	43⅞	-½
14⅛	12⅝	Salomon Br	0.34	2.5		508	13⅝	13⅜	13⅜	
51⅞	34	Salomon	0.04	1.8	6	34214	49⅝	48½	49⅝	+½
27¾	22¾	SnDgGE x	1.52	6.7	12	1266	23	22½	22⅞	+1.16
11⅞	8⅜	SantaFeERP	0.16	1.7	9	604	9⅜	9¼	9⅜	
40¼	35¾	SantaFePac	2.80	7.2	16	17	39⅝	39⅛	39⅛	-⅛
28¼	12¾	SanFeP	0.10	0.4	12	4646	23⅝	22⅞	23½	+⅛
21¾	21	SaraLee x	0.64	3.0	14	8038	21¾	21¼	21¼	-¼
52¼	40⅛	Scana Corp x	2.82	6.2	12	699	45½	45	45½	+2⅞
25⅞	17⅞	Scecorp x	1.42	7.8	12	7207	18½	18⅛	18¼	+⅛
40½	23⅞	ScheringP			30	783	38½	38¼	38½	+1
71	51¾	SchrPl	1.80	3.1	13	2886	58⅞	58¼	58¾	+⅝
68⅞	54⅝	Schlmb	1.20	2.1	23	4865	57⅞	56⅞	57⅜	+⅝
38⅝	16½	Schwab(C)	0.28	1.1	12	1575	27¼	26⅛	26¼	-½
9⅝	5⅝	Schwitzer			24	378	0	8½	3½	-½
38⅞	17⅞	SciAtl	0.12	0.4	62	12165	31¼	29½	31	+3⅞
16⅞	6⅛	Scotman	0.19	0.7	13	92	14⅞	14½	14½	-⅛
46¾	31	ScottP	0.80	1.8	11	2404	46⅛	45⅜	45⅜	-⅜
38⅝	14¼	ScuddrNAsF	0.27	1.2		114	22¾	22⅝	22¾	-⅛
12⅝	7½	ScuddrNEaF	0.19	1.4		435	11½	11¼	11½	+½
31½	16¼	SeaCnB	0.70	4.1	6	2	16⅞	16⅞	16⅞	-⅛
17	15	SeaC1.4625	1.46	9.6		2100	15⅝	15⅜	15⅜	
21	24½	Seagram	0.56	2.0	35	6115	28⅜	27⅞	27⅞	-⅛
32⅞	15	Seagull En			38	1822	25¼	24⅞	25¼	+⅛
32	21	Sealed Air			22	662	30	29½	29¾	-¼
60⅛	42⅝	SearsR x	1.60	3.3	7	15080	49⅞	48	48⅝	+1
13¾	12⅝	Seligm Sel	0.64	6.5		15	15	12⅞	12⅞	-⅛
37¾	20	Sensormat	0.22	0.6	37	2868	37	35½	36⅝	+¾
19½	14⅝	TNP Enterp x								
77⅞	52½	TRW								
25⅞	5¼	T2 Medical								

- X - Y - Z -

1993/94 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
103¼	69⅞	Xerox x	3.00	3.1	39	4318	98	96	97½	+1½
55½	51½	Xerox4.125 x	4.12	7.8		2	53	53	53	
53	61¼	Xtra Corp	0.56	1.3	10	363	44½	43⅞	44½	+1
29¾	19½	Yankee Egy x	1.16	4.8	13	51	24⅝	24	24	-½
1⅛	⅜	Zapata				6	2891	1⅛	1⅛	1⅛ +⅛
13½	5⅞	ZeithEl				3	2106	12	11⅝	11¾
29¼	19⅝	Zenith Nat	1.00	4.4	8	37	22⅞	22⅞	22⅞	
6	6½	Zenix Inc	0.62	10.7		210	7⅞	7⅝	7⅝	-¼
16⅝	12⅝	Zero	0.46	2.8	17	85	14¼	14	14⅛	-¼
40¾	25⅛	Zurn Ind	0.88	3.1	91	133	28⅝	28⅛	28¼	-⅛
13⅞	12⅝	Zweig Fund	1.24	9.3		114	13⅞	13¼	13⅞	+⅛
10⅞	9½	Zweig Total	0.84	8.4		821	10	9⅞	10	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1993. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganized under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

4 pm close March 4

AMEX COMPOSITE PRICES

4 pm close March 4

FT GUIDE TO THE WEEK

7 MONDAY

Kazakhstan holds elections

Kazakhstan's voters choose a federal parliament and local councils. The former Soviet republic, almost half of whose population is Russian, has steered a careful course under President Nursultan Nazarbayev (above). Rich in energy, but yet to explnit its reserves, it has seen big falls in living standards and a rise in ethnic tensions.

President Nazarbayev has called for votes for parties whicb "have shown an understanding of the real problems of the country and are striving to find a solution", which means those backing him. They will probably win a solid majority and support his so far benign authoritarianism.

Tuzla airport in north-central Bosnia is expected to re-open under United Nations supervision. Agreement to open the airport, beld by Bosnian Serbs, wbo are also besieging the Moslem-beld city, was secured hy the UN and Moscow last week. It will facilitate the delivery of food convoys.

BIS meeting: Central bank governors from the G10 countries gather in Basle to discuss international monetary trends, under the auspices of the Bank for International Settlements. They will discuss the current volatility of bond and equity markets, and concerns about the activities of US hedge funds which take bets on markets in the hope of making big short-term gains.

Foreign Affairs ministers of the European Union, meeting in Brussels (to Mar 8), will discuss Greece's trade embargo against the former Yugoslav republic of Macedonia. This will be a sensitive issne, as Greece is chairing the meeting as EU president.

The European Parliament begins a week-long plenary session.

Nordic Council: Finland and Sweden's agreement of terms to join the European Union and tbe uncertainty of Norway's position will give edge to the meeting of Nordic leaders when they gather for a regular get-together in Stockholm (to Mar 10).

Liberian civil war: Disarmament of warring factions under the supervision of the Economic Community of West African States Cease-fire Monitoring Group is scheduled to begin, but may run into trouble.

Romania's president Ion Iliescu begins a one-week visit to Lithuania, South Korea and China, aiming to boost trade and foreign investment. In South Korea he will visit Samsung and Goldstar as well as Daewoo which plans to invest US$400m in the Romanian car industry.

8 TUESDAY

Norway on the brink

European Uninn foreign ministers, meeting in Brussels, will be hoping they can iron out the prohlems that prevented Norway settling terms by the March 1 deadline for an accession deal. Agreement is being beld up by disputes over fish. Spain wants access for its fishing fleet to Norwegian waters, while Norway is insisting its fishermen be able to sell their catch throughnut the Union.

A deal with Norway would allow the EU to submit an outline agreement with Finland, Sweden, Austria and Norway to the European Parliament by Thursday. Accession would still depend on referendums in favour in all four countries.

UK output figures: Economists are looking for a January bounce-back in UK manufacturing output and industrial production, after December falls in both measures raised doubts about the strength of the UK recovery.

The consensus is for month-on-month rises of 0.3 and 0.4 per cent respectively. If the figures are mucb weaker than that, expect renewed speculation of further base rate cuts.

Geneva Motor show: Several key models for European vehicle makers will be unveiled at the Geneva motor sbow. It has its Press preview today, followed by a trade and industry day tomorrow. High on the list for attention will be the final production version of Audi's A8 aluminium lightweight luxury car.

The Geneva show, traditionally one of the best-attended by manufacturers from all around the world, runs until March 16 inclusive.

Swedish TV float: Applications for shares in the first public flotation hy a Swedish television company start today (to Mar 18). TV4, the country's only commercial terrestrial channel, is to sell 20 per cent of the company for SKr400m ($50m). The 4m shares are priced at SKr100 each and TV4 hopes to attract 35,000 new investors.

International Women's Day: Holiday in Russia and Ukraine.

FT Survey: Credit Management. With the UK economy emerging from recession, the need for good credit management is greater than ever. Historically, a third of companies that fail do so during recession, but two-thirds go hust as they emerge from recession. Good credit management can ease the pressure on casb flow.

Football: Scotland play The Netherlands at Hampden Park, Glasgow.

9 WEDNESDAY

Europe's regions in focus

The European Union's Committee of the Regions holds its inaugural meeting in Brussels (to Mar 10). The Committee, created hy the Maastricht treaty, is intended to give a consultative voice to Europe's regions.

Its first task is to elect a president. The Belgian Luc van den Brande, leader of the Flemish regional government, Jacques Blanc, from Languedoc-Roussillon in France, and Charles Gray, former leader of Strathclyde council in Scotland, have their hats in the ring. But rivalry between the first two may hring forward a Catalan candidate, either Pasqual Maragall, the mayor of Barcelona, nr Jordi Pujol, president of the autonomous government of Catalonia.

US-Japan trade:

US secretary of state Warren Christopber (left) begins a visit to Japan (to Mar 11). The main topic on the agenda will be trade. The atmosphere will be tenser, following the decision of the Clinton administration to revive its Super 301 trade weapon.

Cambodia's two prime ministers, Prince Norodom Ranariddh and his junior partner Hun Sen, begin a visit to Japan to attend an international conference on Cambodian economic reconstruction (to Mar 12). They will meet prime minister Morihiro Hosokawa and representatives of the Keidanren business federation.

Hong Kong's government tables the second of Governor Chris Patten's political reform bills. This bill, seen as the more contentious, seeks to broaden the democratic franchise and relates to arrangements for the colony's Legislative Council elections in 1995.

The European Parliament votes on legislation to establish minimum European Union standards for car emissions hy 1996. The parliamentary environmental committee is demanding tougher standards, which could delay the legislation. The vote is expected to be close.

German pay talks: Some 3.5m public sector workers begin their next round of pay talks in Stuttgart.

Off the peak: UK chatterboxes will be celehrating, as BT and Mercury, the two biggest carriers, abolish their peak rate charges for calls between 9am and 1pm on weekdays. Both companies will have a daytime rate from 8am to 6pm and an off-peak rate from 6pm until 8am.

Football: England play Denmark at Wembley Stadium, London. Wales play Norway at Ninian Park, Cardiff.

10 THURSDAY

China's Peoples' Congress

About 3,000 delegates gather in Beijing for the annual session of China's National People's Congress, the country's closest equivalent to a parliament. The Congress will endorse fundamental changes already under way in the financial system, including tax and banking reform.

Two things, however, will not be far from delegates' minds: the frail appearance last month of Deng Xiaoping, China's patriarch; and fears that the economic boom might be getting out of hand. Beijing is trying to win back financial and macro-economic control from provincial capitals after several years of helter-skelter growth.

EU enlargement: The European Parliament has said it must receive by today details of the membership deals the European Union has negotiated with Austria, Sweden, Finland – and possibly Norway, if it manages to conclude negotiations in time.

The draft acts of accession are due for discussion by the foreign affairs committee before the parliament votes on their texts, probably in May. Parliament must approve the package before the applicants can join the Union.

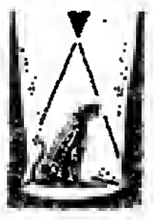
Czech mate: Vaclav Klaus, prime minister of the Czech Republic, will sign a Partnership for Peace at Nato headquarters in Brussels, forging closer military links with the Atlantic alliance. The Czechs will be the 10th state from eastern Europe and the former Soviet Union to sign up.

Macedonia embargo: Greek foreign minister, Carolos Papoulias, holds talks in Geneva with Cyrus Vance, the UN mediator in Greece's dispnte with Macedonia over its name.

Greece is under pressure both from the UN and its European Union partners to drop a trade ban against the former Yugoslav republic and resume dialogue with its neighbour.

An Anglo-Irish intergovernmental conference takes place in London. Patrick Mayhew, Britain's Northern Ireland secretary, and Dick Spring, the Irish foreign minister, will meet to discuss the state of the peace initiative, against the background of continuing prevarication by Sinn Fein and the decision of the Ulster Unionists not to talk to the Irish government before a devolved Northern Ireland assembly was set up.

Parade of pampered pooches:



Dog lovers and hreeders will be converging on the National Exhibition Centre, Birmingham, for the start of Cruft's Dog Show, the UK's leading judging competition. They can look forward to four days of comparing notes and weighing up the finer points.

Holiday: South Korea (Labour Day).

The Conservatives Point the way Forward.

Britain's Conservative government is in the midst of scandals over aid and arms sales

11 FRIDAY

Frei takes over in Chile

Chile's long democratic tradition will be fully restored when President Patricio Aylwin hands over power to fellow Christian Democrat Eduardo Frei, elected last December. The changeover will end a painful period of Chilean history which saw 17 years of military rule after a coup led by General Augusto Pinochet in 1973.

President Aylwin has been credited with overseeing a remarkably smooth four-year transition, during which the economy grew by 28 per cent.

Warren Christopher, US secretary of state, arrives in Beijing for an official visit (to Mar 14). He will warn that billions of dollars in trade are in jeopardy because of China's buman rights record.

The Liberal Democrats, Britains' centre party, start their spring conference in Cardiff (to Mar 13). With the ruling Tories unpopular and in disarray, and the opposition Labour Party distrusted by many voters, the Lib-Dems can hope to hold the balance of power in a hung parliament after the next general election.

Holiday: Indonesian New Year.

12-13 WEEKEND

Lower Saxony votes

Germany's seven-month spate of elections begins on Sunday with the contest for the state parliament of Lower Saxony. The leftwing SPD, currently ruling in coalition with the Greens, bopes to win enough votes to rule on its own.

The main question for federal chancellor Helmut Kohl's rightwing CDU is how badly it will fare. The liberal FDP, ruling in coalition with the CDU in the federal government, may not reach the 5 per cent threshold needed to win seats at all.

Austria's provinces of Carinthia, Tyrol and Salzburg hold elections for their assemblies on Sunday. The vote will test the public reaction to the county's accession deal with the European Union.

Women priests: Saturday sees the first ordination in Britain of women priests into the Church of England. The ceremony takes place at Bristol Cathedral in presence of visiting clergy from around world.

Sunday is Mothering Sunday.

Compiled by Patrick Stiles.
Fax: (+44) (0)71 873 3194.

ECONOMIC DIARY

Other economic news

Mnnday: Consumer credit figures will give a furtber guide to the strength of the UK recovery. Analysts will be watching to see if consumers are starting to curtail their borrowing as the April tax increases approach. In recent months, borrowing has been quite strong, but analysts expect a slowdown to £300m in January, from December's £443m.

Tuesday: Figures for fourtb quarter West German GDP are expected to show a 0.5 per cent fall from the third quarter, indicating that the economy suffered a double dip after two successive quarterly rises. Pan-German unemployment, which topped an unadjusted 4.03m in January, is expected to show a further rise.

Friday: Whole world visible trade figures for the UK in December are expected to show a deficit at around the same level as the £1bn recorded in Nnvember. Since the December deficit with non-European Union countries bas already been annnunced, at £671m, tbe new element of the figures will be trade with tbe EU. The accuracy of tbe EU figures, compiled under the Intrastat system and based on VAT, bas been questioned.

Statistics to be released this week

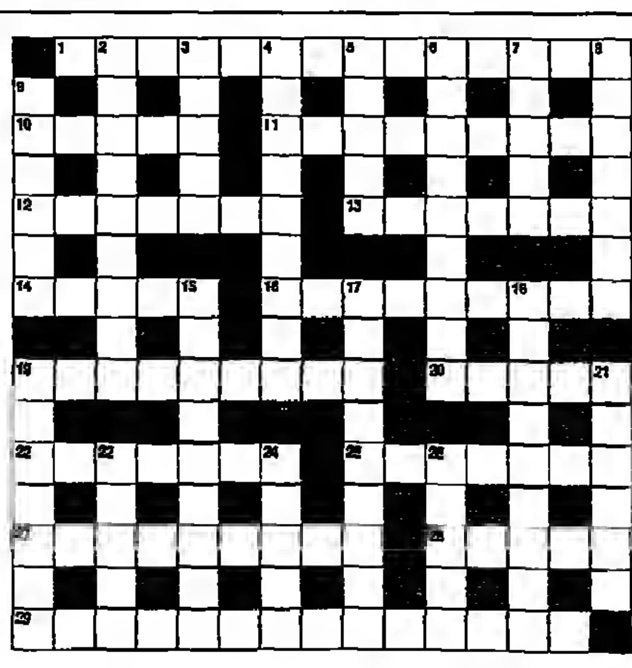
Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Jan consumer credit	+$6bn	$7.3bn
Mar 7	UK	Jan consumer credit	£300m	£443m
Tue	US	4th qtr productivity revenue	–	4.2%
Mar 8	US	Johnson Redbook, w/e March 5	–	Unchanged
	Germany	4th qtr GDP, Western***	-0.5%	0.8%
	Germany	Feb unemployment, West, seas adj	25,000	27,000
	Germany	Jan employment, West, seas adj	-25,000	-21,000
	Germany	Feb vacancies, West	–	10,000
	Germany	Feb unemployment, East	–	118,000
	UK	Jan manufacturing output*	0.3%	-0.5%
	UK	Jan manufacturing output**	1.5%	2.8%
	UK	Jan industrial production*	0.4%	-0.6%
	Canada	Dec labour income, seas adj**	2.1%	2.2%
	Canada	Feb housing starts (units)	155,000	143,000
	Sweden	Jan producer prices index**	–	5%
Wed	US	Jan wholesale trade	–	-0.6%
Mar 9	Germany	Feb cost of living, final**	–	3.5%
Thur	US	Initial claims, w/e March 5	338,000	318,000
Mar 10	US	M1, w/e Feb 28	+$2.8bn	-$0.2bn
	US	M2, w/e Feb 28	+$3.5bn	-$9.4bn
	US	M3, w/e Feb 28	+$1.5bn	-$13.9bn
	US	Monthly M1 – Feb	+$5.3bn	$5.1bn
	US	Monthly M2 – Feb	-$4bn	$6.9bn
	US	Monthly M3 – Feb	-$28bn	$4.2bn
	Canada	Feb help wanted index	85	88
Thur	Canada	Jan motor vehicle sales, seas adj*	-2%	2.5%
Mar 10	Aus'alia	Feb unemployment, seas adj	10.8%	10.6%
(cont)	Norway	Feb consumer prices index**	1.3%	1.3%
Fri	US	Feb retail sales	+0.5%	-0.5%
Mar 11	US	Ditto, ex-autos	+0.4%	-0.3%
	France	Feb consumer prices index, prelim*	0.2%	-0.1%
	France	Feb consumer prices index, prelim**	1.7%	2.1%
	UK	Dec visible trade	-£1bn	-£1.04bn
	Canada	Feb employment, seas adj	0.2%	-0.3%
	Canada	Feb unemployment rate	11.4%	11.4%
	Canada	Jan dept store sales**	-3.4%	-0.4%
During the week...				
	Japan	4th qtr GDP, seas adj annualised	-3.4%	2%
	Germany	Jan capital a/c	–	-DM12.3bn
	Germany	Jan long-term capital a/c	–	DM34.9bn
	Germany	Jan retail sales – real **	0.0%	-6%
	Germany	Jan producer prices index*	0.5%	-0.1%
	Germany	Jan producer prices index**	0.2%	-0.1%
	France	Jan M3*	0.5%	-1.5%
	N'lands	Feb consumer prices index*	0.3%	0.3%
	N'lands	Feb consumer prices index**	2.1%	2.4%
	Belgium	Dec industrial production**	–	-7.2%
	Spain	Feb unemployment – registered	18.2%	19.95%

*month on month, **year on year, ***quarter on quarter. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD
No.8,397 Set by DANTE

ACROSS
1 Detail Harriers to scramble in defence against bombers (3-4,7)
10 Free of charge, perhaps (5)
11 Two men of a bygone era (9)
12 Study the actual words, and whatever goes with them (7)
13 Parson goes round a nuclear establishment (7)
14 One fat round Scotsman (5)
16 Right way to keep up with the times (9)
19 Dive for a weapon to use after dark? (9)
20 HQ of the French vessel (5)
22 Old city in Natal is unaffected (7)
25 Available to customers, or about to arrive (2,5)
27 Dates may be seen around here (3,3,3)
28 Send home from school (5)
29 Celebrate launch (4,3,4,3)

DOWN
2 I'm hanging on, there's something about to happen (9)
3 It does, with time (5)
4 A client I'd made perfectly agreeable (9)
5 Needlewoman eliminates waste (5)
6 Presented with a cauliflower? How distinguished! (9)
7 One asking for more tobacco perhaps (5)
8 Spread liberal sail when the wind's behind you (3,4)
9 With which to write three Roman numerals? (6)
15 Checking of soil in France by conservationists (9)
17 This is an essential part of a player's score (9)
18 Ad-lib of prim MP outcast (9)
19 Without brakes? Without breaks! (7)
21 Suitable voice for a trio? (6)
23 The sound of tears and rows (5)
24 I sell out of this thread (5)
26 Work hard to process waste (5)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday March 17, marked Monday Crossword 8,397 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 21.

Name..

Address..

Winners 8,385

J. Buckley, Grotton, Oldham
J.M. Hughes, West Moseley, Surrey
J.G.H. Pearce, Woburn Sands, Milton Keynes
E.S. Purves, Larchmont, New York, USA
Eira Sanders, Nether Poppleton, York
R. Slater, Birmingham

Solution 8,385